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Syrian Arab Republic: 2007 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with the Syrian Arab Republic, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 30, 2007 with the officials of the Syrian Arab Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 13, 2002. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 30, 2007 discussion of the staff report that concluded the Article IV consultation.

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INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation
with the Syrian Arab Republic

Approved by Juan Carlos Di Tata and Anthony Boote

July 13, 2007

- **The 2007 Article IV discussions were held in Damascus during April 29–May 16, 2007.** The staff team met with Minister of Finance Al-Hussein, Deputy Prime Minister Dardari, Central Bank Governor Mayaleh, Minister of Tourism Al-Kalaa and representatives of financial institutions and the donor community. The mission comprised Mrs. Moalla-Fetini (head), Messrs. Dridi and Hasan (all MCD), Mr. Saker (MCM), Mr. Beddies (PDR), and Ms. Winkler (research assistant). Mr. Shaalan, Executive Director for Syria, joined the policy discussions.

- **Significant progress toward exchange rate unification was made on January 1, 2007 with the abolition of the official "budget" rate; a substantial liberalization of import financing has also been achieved.** The authorities have announced their intention to tightly manage the value of the Syrian pound (SP), and to switch the reference currency from the U.S. dollar to the SDR in the coming months. Syria continues to avail itself of the transitional provisions of Article XIV, and maintains exchange restrictions that are subject to Fund approval under Article VIII.

- The authorities have requested an FSAP, with missions tentatively scheduled for late 2007 and early 2008.

- **Significant data weaknesses continue to hamper the staff's ability to conduct effective surveillance and monitor the economy's response to ongoing reforms**. The weak statistical infrastructure has been unable to cope with the acceleration of structural reforms, and the inherent difficulties in recording the flows of people, goods, and money from and into Iraq have added to this challenge.

- **The authorities released the mission's concluding statement.**

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EXECUTIVE SUMMARY

Focus of the report

Discussions focused on the macroeconomic and structural policy adjustments that would be needed to continue to deal with the decline in oil revenues, rebalance the sources of growth toward investment and durable gains in external markets, expand and diversify the production base of the economy, and boost job creation to absorb a growing number of entrants to the labor market.

Background

Over the past three years, Syria has rebounded from a half decade of weak growth, despite an unsettled regional environment and a sharp drop in oil production. The economic recovery underway since 2004 has gained momentum, benefiting from inflows from Iraqi refugees and abundant liquidity in the Gulf region. Private investment has strengthened, reflecting an improved business climate, and exports have made strong gains, particularly in some Arab markets, reflecting higher demand and improved access under the Great Arab Free Trade Area. Despite a 10 percentage points of GDP drop in oil proceeds over the past three years, and the large demand shock from the Iraqi refugees, inflationary pressures have been contained owing to the economy's supply responsiveness and a sustained, timely and sizeable fiscal adjustment. Public debt is relatively moderate, and the international reserves cover is comfortable. Barring policy missteps or a deterioration in the regional environment, the near-term outlook for growth and inflation looks favorable.

Views of the authorities

The authorities were pleased with the economy's performance, but were also well aware of the challenges ahead. They underscored the need to solidify growth which would require persevering with quality fiscal adjustment and accelerating market reforms. In particular, the authorities indicated that they were determined to start the reform of the costly petroleum price subsidies (PPS) before the end of the year, and to put back on track the agenda for an early adoption of the VAT. They also highlighted recent progress in establishing the regulatory framework for the financial sector and strengthening the monetary policy framework, and committed to moving ahead with financial sector reform with input from the upcoming FSAP.

Staff recommendations

To consolidate the gains achieved in recent years, the staff underscored the need for a steadfast implementation of the reform agenda embedded in the ambitious tenth five-year development plan. As further reliance on cuts in capital spending would start to hamper growth, staff re-iterated the call the call to move swiftly to phase in the PPS reform and launch the VAT, which are the two key pillars of the fiscal reform strategy discussed during last year's Article IV consultation. The staff also encouraged the authorities to focus on gaining credibility in operating the new managed float exchange rate system, within a tight trading range. The authorities were also encouraged to develop new monetary instruments in order to enhance monetary management, allow further interest rate liberalization, alleviate the costs on banks of managing Syrian pound liquidity, and pave the way toward greater exchange rate flexibility over the medium term. Supervisory-capacity building and state banks' restructuring are paramount to address emerging vulnerabilities and enhance financial sector development. Utmost priority should be given to strengthening the statistical base to enhance economic surveillance and reduce the risk of policy mistakes.

I. INTRODUCTION

1. **Over the past three years, Syria has rebounded from a half decade of weak growth, despite an unsettled regional environment and a sharp drop in oil production**. The economic recovery underway since 2004 has gained momentum, benefiting from inflows from Iraqi refugees and abundant liquidity in the Gulf region. Private investment has strengthened, reflecting an improved business climate, and exports have made strong gains. Despite a large drop in oil proceeds (10 percentage points of GDP) and the large demand shock from the Iraqi refugees, inflationary pressures have been contained owing to a sustained, timely and sizeable fiscal effort. Public debt is at a relatively moderate level, and the international reserves cover remains comfortable. Barring policy missteps or a deterioration in the regional environment, the near-term outlook for growth and inflation is favorable.

2. **The 2007 Article IV consultation discussions were held prior to the presidential elections.**

3. **The authorities have been responsive to Fund advice.** They have continued to make progress in furthering the comprehensive reform agenda embedded in the 10th five-year development plan (FYDP, 2006–10)—which is broadly in line with Fund policy recommendations[1]—and in building institutional and regulatory frameworks for key markets. Appendix I reviews key measures implemented since the last Board meeting.

II. RECENT ECONOMIC DEVELOPMENTS

4. **Staff estimates growth of non-oil GDP to have picked up to some 6–7 percent in 2006**.[2] Given a 6½ percent drop in oil production, this would be consistent with overall growth of 4½–5 percent (Table 1). Growth was driven in part by the impulse from the influx of Iraqi refugees, which is likely to have had a significant first round impact on aggregate demand, which was amplified by a wealth effect associated with the boom in real estate and rental prices. The Iraqi refugees, whose number grew by 60 percent in 2006, to about 1½ million (8 percent of the Syrian population), are still believed to be living mainly off their savings. A good harvest added to employment gains in boosting the consumption of Syrian households, and the surge in non-oil exports to Iraq and other Arab countries contributed to the strong growth performance. Growth is also likely to have been supported by a pick-up of private investment, given the impressive increase in investment approvals (Box 1).[3]

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[1] See IMF Country Report No. 06/294, Annex I.

[2] The central bureau of statistics' preliminary estimate of non-oil GDP growth in 2006 is 10 percent, but the reliability of this estimate is compromised by methodological problems and weak data sources.

[3] Data on actual investment are scant, but there are some indications that the boom in investment approvals has not translated yet into a commensurate increase in actual investment. Given the data weaknesses, it is difficult to ascribe relative weights to the various factors that have contributed to growth.

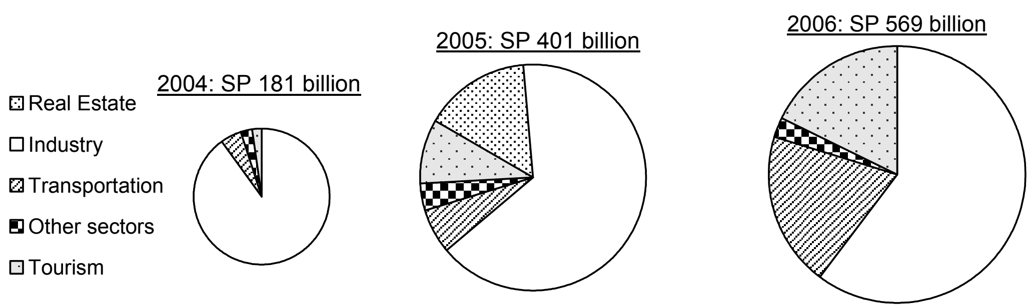
Box 1. The Surge in Investment Approvals

The past two years have witnessed an impressive growth in the volume of investment approvals across sectors:

- Under the most important investment law, Law No 10 of 1991, investment approvals reached US$9.2 billion (26 percent of GDP) in 2006, more than 2½ times the level of 2004. Almost three-fourths of investment is in increasingly diversified industrial projects (including cement, steel, food processing, pharmaceuticals, textiles, and power generation), and another 20 percent is in the transport sector. Investment in the much publicized real estate projects (consisting of commercial, recreational, and other services associated with government housing projects) represented only about 15 percent of the total approved projects in 2005 (SP 60 billion) and their social returns—which are feared to be low in some circles—may actually be quite high if they are part of a well diversified investment strategy. The share of foreign direct investment (FDI) approvals in total approvals is estimated to have remained fairly stable at about 20 percent.

- Investment approvals in other sectors were equally strong. Approvals in tourism reached US$2 billion in 2006, 25 times higher than in 2004, and the ministry of tourism is now preparing to launch mega projects following the success achieved in attracting investors to smaller projects. Investment in the financial sector grew by 200 percent in 2006 (both banking and insurance), and the trend is expected to remain strong in the coming years.

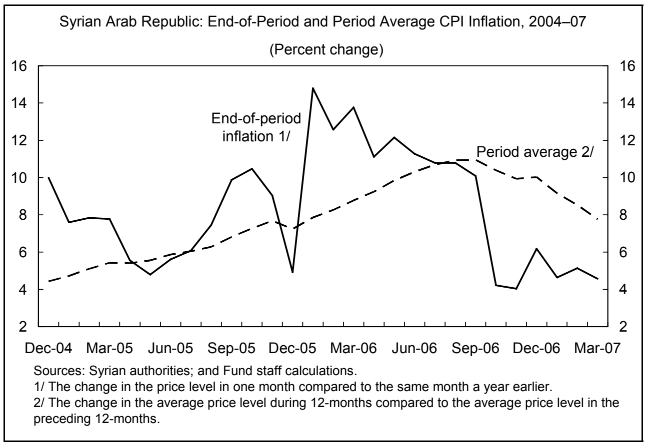
Syrian Arab Republic: Investment Approvals under Law #10 and in Tourism, 2004–06 1/

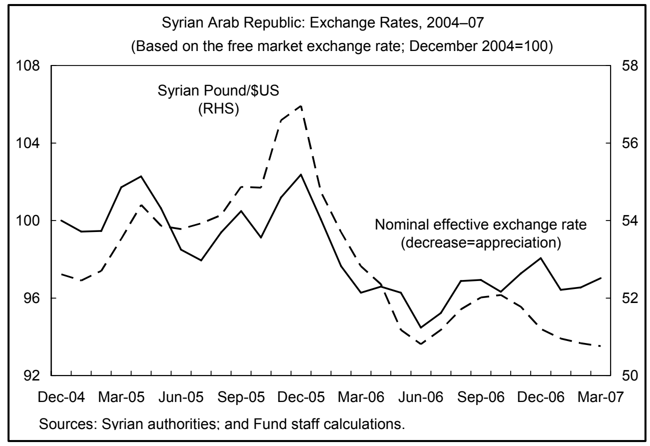


Source: Syrian authorities.

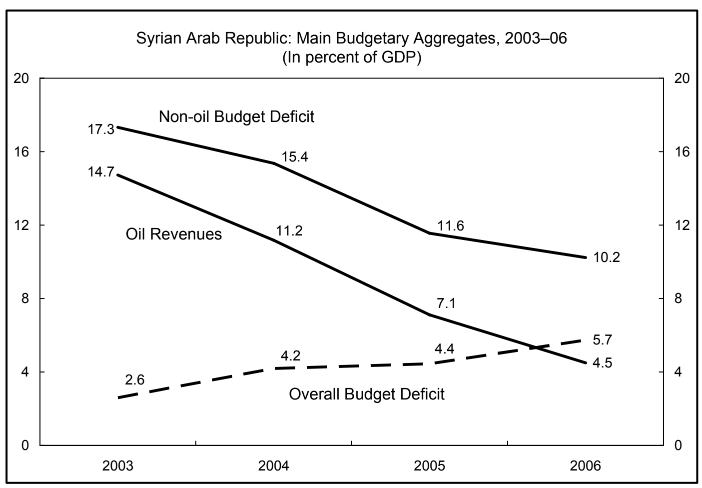
1/ No real estate investment projects were approved in 2004 and 06.

5. **The build-up of inflationary pressures since mid-2005 seems to have abated in recent months**. While average inflation increased to 10 percent in 2006, end-of-period inflation has been on a downward trend, reaching 4½ percent in March 2007. Half of the increase in inflation in 2006 is attributed to food prices, owing to weather-related shortages and the impact of stronger domestic demand. The increase in the U.S. dollar price of imported non-fuel commodities, together with some pass-through of the exchange rate depreciation at end-2005, may also have played a role.





6. **A timely and significant fiscal adjustment largely offset a sharp decline in oil revenues.** Over the last three years, fiscal policy had to contend with a cumulative loss of oil revenues in excess of 10 percentage points of GDP, owing both to a sharp contraction in oil production and rapid growth in the consumption of subsidized petroleum products (reflecting, in part, increased smuggling and the impact of the Iraqi refugees). A cumulative improvement of 7 percentage points of GDP over 2004–06 narrowed the non-oil budget deficit to about 10 percent of GDP in 2006. The bulk of the adjustment was achieved through rationalization and efficiency gains in investment spending, and higher dividends from buoyant profits of some public enterprises (PEs) mainly in the telecommunications sector.[4] Profit tax rates have been



[4] Most PEs are loss making, with budgetary transfers to shore up their finances rising by ½ percent of GDP over the past three years, to about 2 percent of GDP in 2006.

lowered drastically—with the top marginal rate coming down from 65 percent in 2003 to 28 percent in the latest amendment—and import tariffs have been reduced significantly. Tax administration improvements and the strong economic activity fully compensated for the cuts in taxes, providing a small boost to the tax intake (Tables 2 and 3).

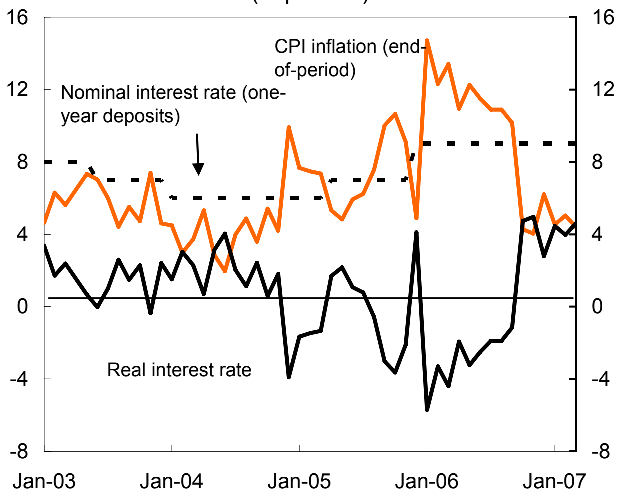
Syrian Arab Republic: Summary of Fiscal Operations, 2003–06
(In percent of GDP)

	2003	2004	2005	Prel. Est. 2006	Cumulative change during 2004–06
Revenue	**28.8**	**27.2**	**24.0**	**21.9**	**-6.9**
Oil revenues	14.7	11.2	7.1	4.5	-10.2
Non-oil revenue	14.0	16.0	16.9	17.4	3.3
Non-oil tax revenue	10.5	11.5	10.7	11.2	0.7
Non-oil non-tax revenue	3.4	4.4	6.0	6.2	2.7
Of which: Surplus of PEs	3.0	3.8	5.1	5.5	2.5
Expenditure	**31.4**	**31.4**	**28.4**	**27.6**	**-3.7**
Current expenditure	17.7	19.0	18.1	18.7	1.0
Development expenditure	13.7	12.4	10.3	8.9	-4.8
Overall balance	-2.6	-4.2	-4.4	-5.7	-3.1
Non-oil balance	**-17.3**	**-15.4**	**-11.6**	**-10.2**	**7.1**

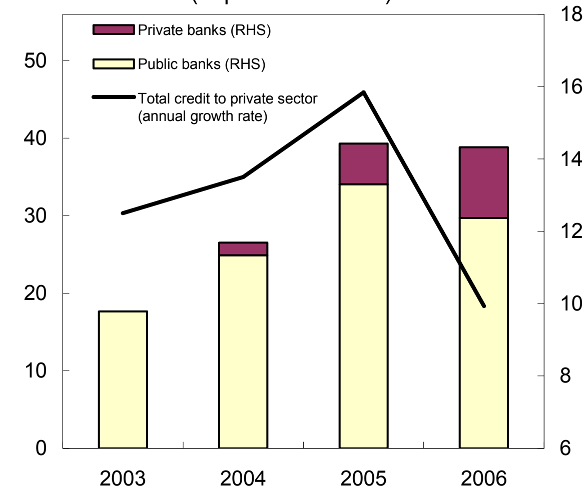
Sources: Syrian authorities; and Fund staff calculations.

7. **Credit policy played a useful role in controlling domestic demand.** State banks slowed their lending, which helped cool the credit boom experienced in 2004–05 (Tables 4 and 5). Private sector credit growth in 2006 (18½ percent), while still fast, reflects a process of financial re-intermediation with a strong contribution by the nascent private banking sector (Box 2). Net lending to the public sector was the main contributor to money growth. Administered deposit interest rates, which turned negative in real terms during most of 2006, are now positive.

Syrian Arab Republic: Interest Rates and Inflation, 2003–07
(In percent)



Syrian Arab Republic: Credit to the Private Sector, 2003–06
(In percent of GDP)



Sources: Central Bank of Syria; and Central Bureau of Statistics.

Syrian Arab Republic: Sources of Money Creation

	2003	2004	2005	2006
	(Change in percent of initial stock of money)			
Net foreign assets	4.2	7.1	2.3	-1.7
Domestic assets (net)	3.5	6.4	9.7	16.3
Domestic credit	4.7	8.8	16.1	13.1
Net claims on the public sector	0.6	3.1	7.2	8.4
Net claims on central government	0.7	3.7	7.9	0.7
Net claims on public enterprises	-0.1	-0.6	-0.7	7.7
Claims on private sector	4.1	5.7	8.9	4.6
Other items (net) 1/	-1.2	-2.5	-6.4	3.3
Money (M2) 2/	7.6	13.5	12.0	14.6
Memorandum items:				
Credit to the private sector (percent change)	30.3	35.0	45.9	18.4
Public banks	30.3	31.0	38.7	10.9
Private banks	…	…	281.7	106.9

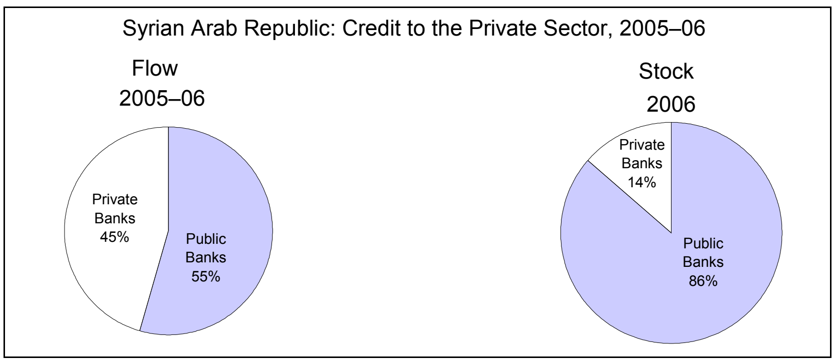
Sources: Syrian authorities; and Fund staff estimates.

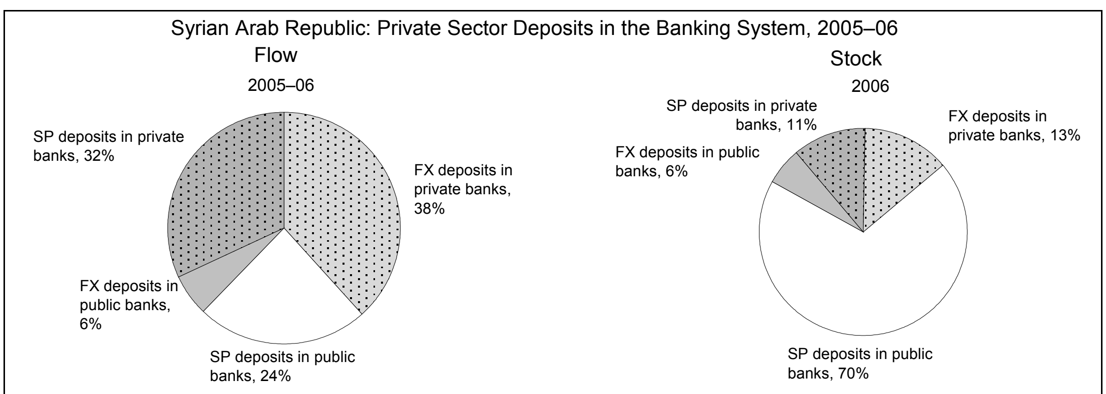
1/ In 2006, the increase in other items net reflects, in large part, the use of part of the valuation adjustment account of the CBoS to finance the budget deficit.

2/ Net of public enterprise deposits.

Box 2. The Rapid Growth of Private Banks

Private banks have made considerable progress in gaining market share and appear well capitalized and managed. Following the opening of the first three private banks in 2004, four more banks entered the market in the last two years, and several more banks are expected to start operations in 2007, including some Islamic financial institutions. These banks are mainly subsidiaries of regional banks (typically Lebanese or Jordanian based), although majority ownership is held by Syrian investors, who have shown strong interest in the sector, as reflected in large oversubscription of the banks' IPOs. In 2006, private banks captured 70 percent of the increase in private sector deposits and contributed 45 percent of the growth in loans to the private sector. As a result, their share in private sector deposits and loans reached 25 percent and 14 percent, respectively, by end-2006. The private banks have introduced new products contributing to an overall improvement in the quality of financial services by putting competitive pressure on state banks. Although the pace of increase in their loan portfolios slowed down in 2006, it was still above 100 percent. This development start bodes well for the ability of Syria's restructured financial sector to meet the demands of a growing economy.





Source: Central Bank of Syria.

8. **The assessment of external sector developments is complicated by several data weaknesses, and the factors behind the relatively small weakening of the overall BOP during the last three years, despite the sharp decline in net oil exports, are not entirely clear.**[5] Fiscal adjustment, the inflows associated with the Iraqi refugees, and some pickup in FDI seem to have been the main contributing factors that offset, in part, the impact of the decline in net oil exports. The contribution of the oil sector to foreign exchange earnings became almost nil in 2006—down from close to 11 percent of GDP in 2003—and is expected to turn negative in 2007. The non-oil goods and services account is estimated to have narrowed by about 4 percentage points of GDP on the back of strong growth in non-oil exports, particularly to some Arab countries, owing to stronger demand and improved access under the Great Arab Free Trade Area.

Syrian Arab Republic: External Sector Developments
(In percent of GDP; unless otherwise indicated)

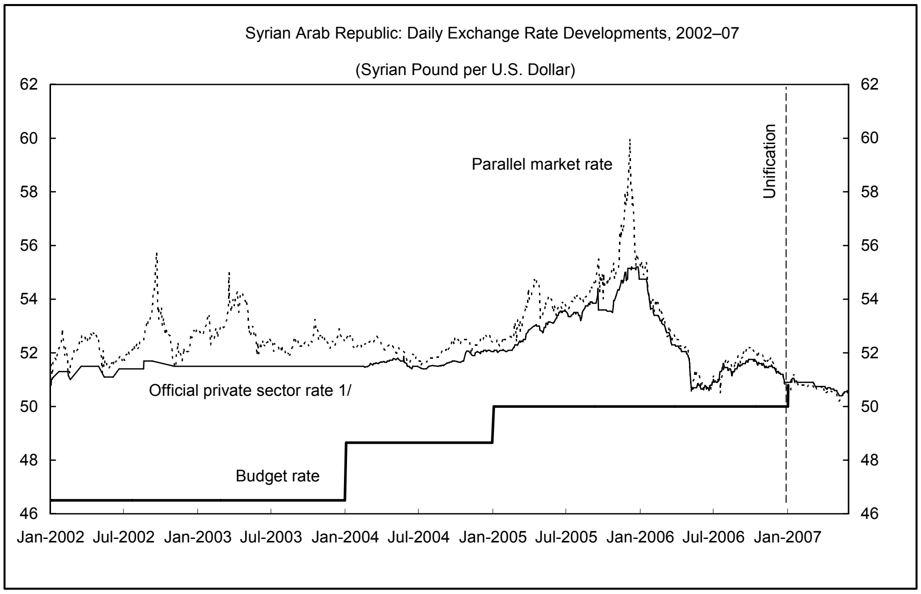
	2003	2004	2005	2006
Current account balance	**0.8**	**-3.2**	**-4.1**	**-6.1**
Oil balance	10.8	5.2	2.0	0.4
Non-oil goods and services balance	-12.7	-12.0	-9.5	-8.8
Factor income and transfers	2.7	3.5	3.4	2.3
Identified capital inflows	**0.7**	**-0.6**	**-1.7**	**-1.6**
Of which: FDI	0.7	1.1	1.7	1.7
Inflows related to the Iraqis 1/	**0.0**	**1.8**	**2.8**	**3.7**
Errors and omissions	1.1	2.8	3.1	1.8
Overall balance	**2.6**	**0.8**	**0.1**	**-2.2**
NFA of the central bank and the CBoS				
(In millions of U.S. dollars)	17,362	17,567	17,585	16,833
(In months of imports of GNFS)	25.4	20.0	16.4	13.4
(In percent of GDP)	76.5	70.2	61.4	48.2

Sources: Central Bank of Syria; and Fund staff estimates.

1/ Includes inflows to purchase goods and services, assets (such as real estate), and for investment.

[5] The overall balance of payments swung from a surplus of about 2 percent of GDP in 2003 to a deficit of some 2 percent of GDP in 2006. At the same time, the parallel market rate has depreciated modestly by 6 percent in nominal effective terms.

9. **Amid the shocks that have buffeted the external accounts (including an episode of politically-driven pressures on the currency), steady progress toward exchange rate unification and current account convertibility has been made.** Substantial liberalization of import financing was achieved in September 2006,[6] and with the elimination of the official budget rate in January 2007, the economically significant exchange rates were unified.[7] Since then, the central bank has been managing the value of the currency vis-à-vis the U.S. dollar within a tight trading range. Given the strong performance of non-oil exports, the Central Bank of Syria (CBS) has intervened occasionally to lean against upward pressures on the exchange rate, waiting to develop a better understanding of the factors behind the strengthening of the BOP. The pick-up of inflation in 2006 led to some real appreciation (7.3 percent for the parallel market rate and 2.2 percent for the weighted average rate). Syria's price competitiveness, as measured by real bilateral exchange rates, has remained comparable or better than that of neighboring countries such as Lebanon, Jordan, Morocco, and Turkey, but it has deteriorated vis-à-vis Egypt and Tunisia (Figure 1).[8]

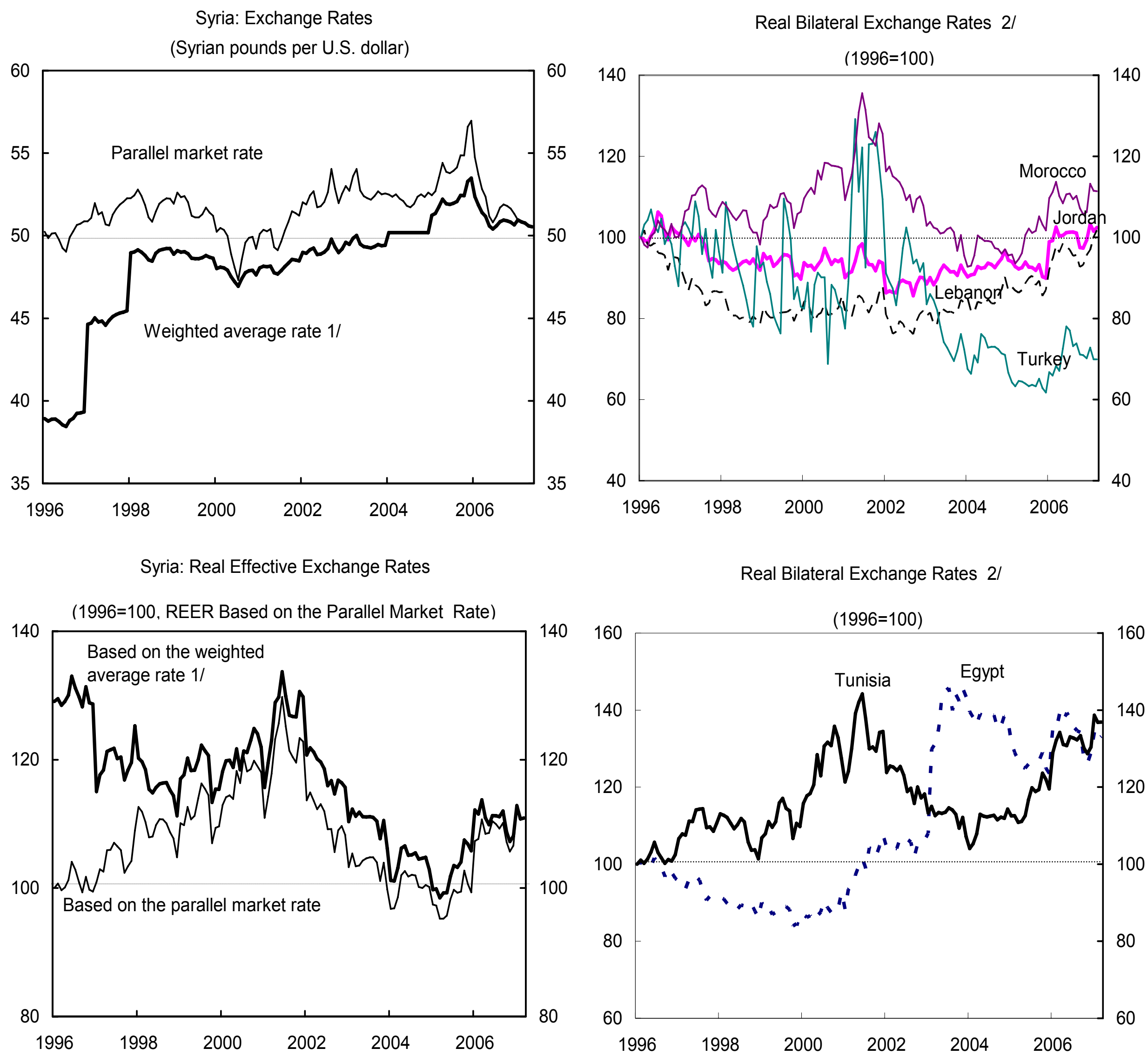


[6] Remaining restrictions include access to foreign exchange to finance car imports and payments and transfers on the invisibles account. Their removal is likely to have only a minor impact on the foreign exchange market.

[7] Staff are still seeking clarification on multiple currency practices, including those identified in Annex II.

[8] There is some anecdotal evidence of improvements in non-price competitiveness, such as in tourism, where there was a marked improvement in quality with the recent opening of five-star hotels. Also, according to some investors, Syrian products have shed the "bad-quality" label that used to be attached to them when they were mainly used as means to repay the debt to former Soviet Union countries. Their quality, variety, and reliability is responding rapidly to the demanding standards of the new markets in which they are entering.

Figure 1. Syrian Arab Republic and Selected Countries: Exchange Rates, 1996–2007



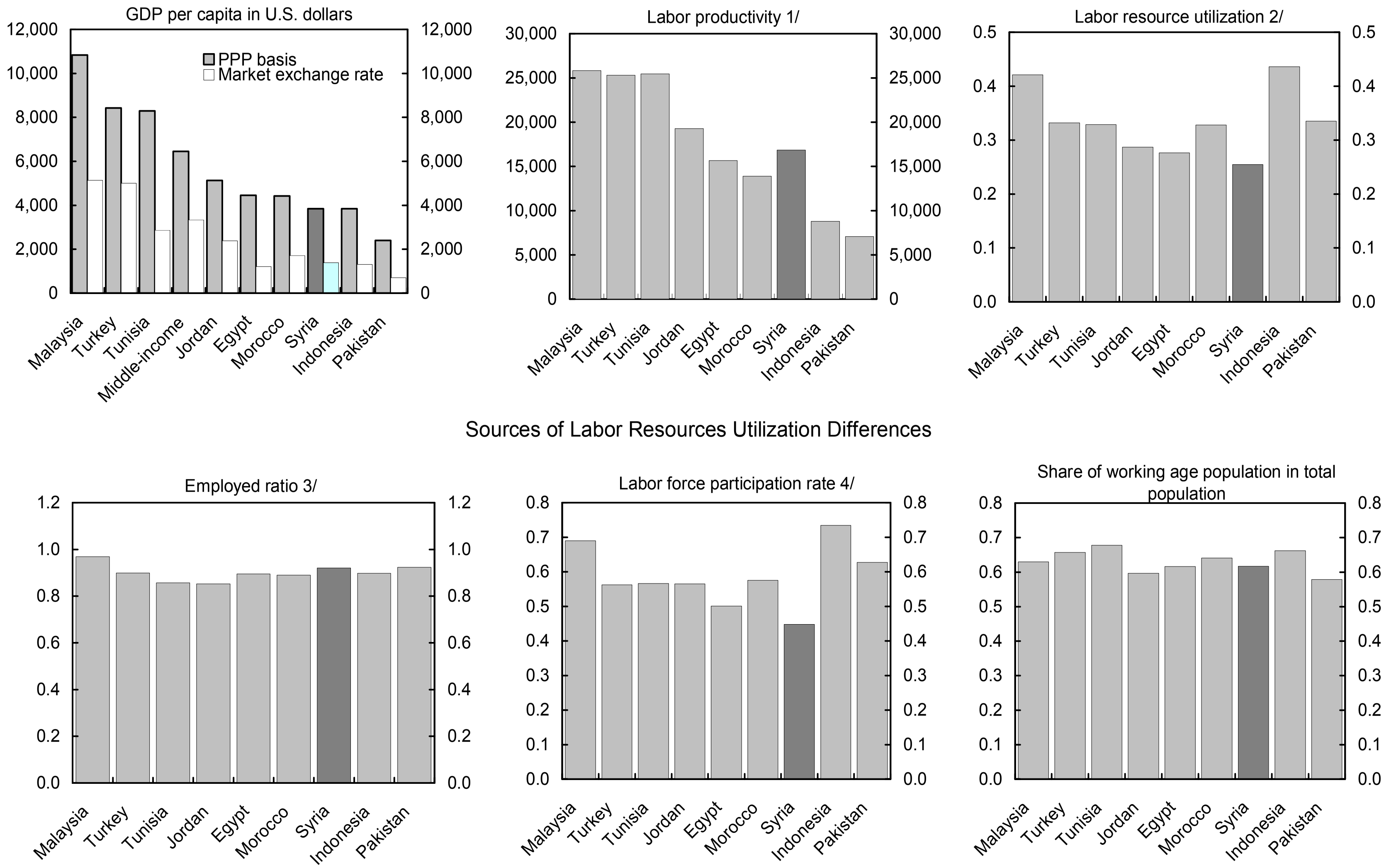
Sources: Syrian authorities; and Fund staff estimates.
1/ Trade weighted average of official and parallel market rates.
2/ Based on the parallel market rate.

10. **Broad-based reforms over the past two years have led to significant changes in the economic and financial landscape, but the reform agenda remains substantial**. Progress toward exchange rate unification and current account convertibility, investment facilitation under a more liberal investment regime, tax reform, trade and financial liberalization, and the on-going development of appropriate regulatory frameworks in key sectors[9] have all contributed to improving the investment climate. Notwithstanding these achievements, a number of structural rigidities that continue to hamper investment and productivity growth still need to be addressed. Among middle-income countries, Syria's relatively low GDP per capita (⅔ of the group average) reflects both low productivity and low labor force participation (45 percent) (Figure 2). The latter is likely to mirror poor employment opportunities in a still largely constrained business environment.[10]

[9] Most notably in banking, insurance and capital markets, and in housing and real estate.

[10] Syria ranks poorly in The World Bank's survey on indicators for the cost of *Doing Business* (130 out of 175 countries). *Doing Business* shows Syria's worst performance to be in enforcing contracts (153 ranking), trading across borders (147 ranking), and starting a business (142 ranking).

Figure 2. Syrian Arab Republic: Sources of Real Income Differences in Selected Middle Income Countries, 2005



Source: Syrian authorities; Fund staff calculations; and World Bank.
1/ Measured as PPP GDP per employee.
2/ Measured as the number of employees divided by total population.
3/ Total employment as a ratio of labor force.
4/ Labor force population as a ratio of working age population.

III. Report on the Discussions

11. **Overall, the authorities were pleased with the strengthening of the economy, but were also well aware of the challenges ahead.** They drew comfort from the boom in investment approvals, the resilience of the economy to the troubled regional environment and its ability to mitigate the impact of the decline in oil revenues, and the strength of the Syrian pound, which they view as a vote of confidence in their policies. The authorities agreed with the staff that the economic recovery of the past three years was likely to have been to some extent driven by the impulse originating from the influx of Iraqi refugees. They also recognized that for growth to be sustained, it was important to rebalance aggregate demand toward investment, which would require further fiscal consolidation and deeper market reforms. Against this background, discussions focused on the near-term outlook, policies to preserve fiscal solvency, a more explicit monetary policy framework, financial sector development, and key structural reforms.

12. **An overarching prerequisite for the success of reforms *in all areas* is to strengthen domestic capacity by hiring people with the required competencies and offering them competitive salaries.** In particular, the authorities acknowledged that data weaknesses were indeed hampering macroeconomic management and their ability to monitor the economy's response to ongoing reforms. They noted that a first step toward addressing this problem, budget allocations to statistical institutions had been increased substantially, and efforts were being made to revamp accounting standards in public enterprises. Nevertheless, the authorities were afraid it will take time to overcome the skill-deficit in this area.

A. Near- and Medium-Term Outlook

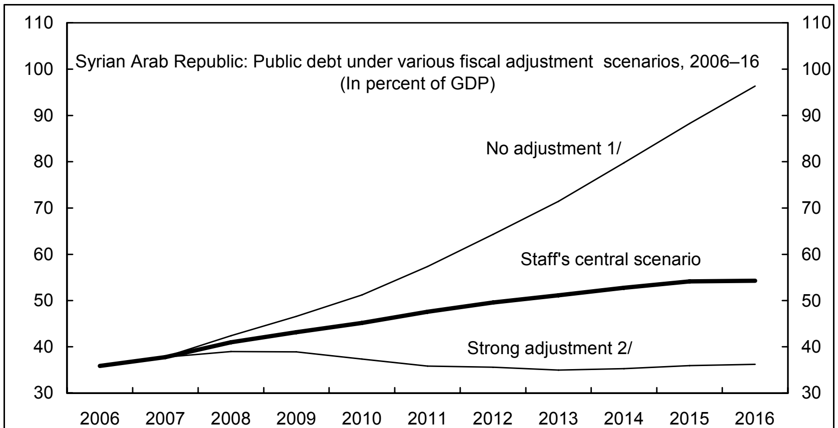
13. **The authorities and staff agreed that the growth outlook for 2007 was favorable.** The reforms implemented in recent months, continued stimulus to aggregate demand from the Iraqi presence, and favorable growth prospects globally and in the region are expected to support consumption and non-oil exports, and to encourage higher private investment. These factors would help sustain growth at about the same pace as in 2006, although a deterioration in weather conditions, which recently hit the cereal and cotton crops, may dampen growth somewhat. Given a projected 7 percent decline in oil GDP, this would be consistent with overall growth of about 4 percent in 2007. Downside risks include adverse political developments in the region, and uncertainties that could affect adversely private investment.

14. **To keep inflation in check, macroeconomic policies should remain appropriately tight.** Regarding fiscal policy, the authorities are aiming to reduce the budget deficit to 5 percent of GDP, despite an expected further fall of oil revenues of about ¾ percentage points of GDP. This would require an improvement in the non-oil budget deficit of some 1½ percent of GDP in 2007, which they plan to achieve through a further rationalization of

capital spending. The authorities and staff concurred that the current level of benchmark interest rates was appropriate, and that state banks' lending should remain in line with the monetary objectives.

15. **The staff has prepared a central medium-term scenario that occupies a middle ground in the range of possible policy outcomes.** The central scenario assumes a moderate further fiscal adjustment but not enough to offset the decline in oil revenues, leading to a steady rise in public debt.[11] The drying up of inflows from the Iraqi refugees and the rise in the oil import bill as oil reserves continue to dwindle will put pressure on the external position, making it harder to reconcile the competing goals of maintaining both a stable exchange rate—to underpin price stability—and a comfortable international reserves cushion (Table 7). Stress tests on public debt point to added pressures on the debt dynamics from various possible shocks (Tables 8 and 9, and Figures 3 and 4). Additional pressures could also arise from higher health and education spending on the Iraqi refugees.

16. If the reform momentum is strengthened relative to the staff's central scenario to underpin fiscal and external sustainability, positive synergies between fiscal adjustment and growth could put the economy on a higher growth path, capitalizing on its privileged location, it's well established entrepreneurial base, and its cheap labor force. For instance a strong fiscal adjustment scenario (9 percent of GDP until 2012) shows higher medium-term growth, together with a steady reduction in the external current account deficit (Table 10). If, however, adjustment fatigue blocks further reform, financial pressures would increase, growth would falter, and unemployment would rise, particularly if the labor market has to absorb the Iraqi refugees.



1/ This scenario assumes no new measures. The non-oil budget deficit widens over time reflecting higher debt servicing costs.
2/ This scenario assumes that the VAT is introduced at the rate of 5 percent in 2009, and raised in steps to 15 percent from 2014 on. With regard to PPS, diesel prices are assumed to be raised in 2008 to close 50 percent of the gap with respect to international prices. The remaining adjustment is spread over the following three years. The amount of the cash compensation is set equal to 42 percent of gross yield.

[11] In this scenario, the budget deficit is kept at 5 percent of GDP, which would lead to an increase in the debt to GDP ratio to 50 percent in 2012, from 36 percent in 2006.

B. Preserving Fiscal Sustainability

17. **The authorities acknowledged that fiscal adjustment so far had been facilitated by the flexibility of capital outlays and that further fiscal consolidation would require difficult measures.** The flexibility in the budget was the result of a conservative approach in which past increases in oil revenues were not used to create permanent entitlements, but rather to finance public infrastructure. As oil receipts started to decline, rationalization and re-prioritization of development spending made it possible to adjust to the lower revenues. However, at 8 percent of GDP in 2007, development expenditures are approaching a level where further cuts may start to hurt growth.

18. **At the same time, the authorities agreed that a strong further fiscal effort was needed to address the secular decline in oil revenues and preserve fiscal and external sustainability.** To this end, they concurred with the need to move swiftly to phase in the petroleum price subsidy (PPS) reform and launch the VAT, which are two key pillars of the proposed fiscal reform discussed during the 2006 Article IV consultation:[12]

- Regarding PPS, the authorities recognized that such reform was a must, as its cost was untenable, exceeding 10 percent of GDP in 2006. Preparations have moved into a higher gear, and the authorities are hoping to start the reform before the end of the summer. The speed of price adjustment and the amount of compensation to be provided to households[13] involve two main trade-offs: (i) the risk of destabilizing inflation expectations associated with a sharp increase in prices versus adjustment fatigue from a drawn-out process, and (ii) less fiscal savings versus more political palatability. The table below quantifies some of these tradeoffs and provides estimates of the annual yield of this measure under various options.

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[12] See IMF Country Report No. 06/295 for a background study on the reform agenda for fiscal consolidation.

[13] Initially, and in the absence of means-testing mechanisms, the reform envisages a return to all households of a certain share of the gross fiscal gains in the form of a flat per person cash compensation, which would already imply a more equitable targeting. This system could be implemented easily by piggy-backing on the existing coupon system for rice and sugar.

Syrian Arab Republic: Impact of the Petroleum Price Subsidy Reform			
	Increase in the Price of Diesel (In percent)		
	100 1/	150 2/	200 3/
Impact on the CPI (in percent)			
Total effect	4.2	6.2	8.3
of which: direct effect	2.7	4.0	5.3
Impact on government revenues in 2008 (in percent of GDP) 4/			
Net impact 5/	1.9	2.7	3.6
Gross fiscal savings	3.2	4.7	6.1
minus compensation	1.3	2.0	2.5
Net impact 6/	2.2	3.2	4.1
Gross fiscal savings	3.2	4.7	6.1
minus compensation	1.0	1.5	2.0

1/ Closes 35 percent of the gap vis-à-vis international prices.
2/ Closes 53 percent of the gap vis-à-vis international prices.
3/ Closes 70 percent of the gap vis-à-vis international prices.
4/ Assuming the reform starts on January 1, 2008.
5/ Returning 42 percent of gross fiscal savings to households would make 50 percent of the population better off.
6/ Returning 33 percent of gross fiscal savings to households would make the three poorest population deciles better off.

- Regarding the VAT, major delays have been experienced in implementing key prerequisite tax administration measures, including the adoption of a tax procedures code and an integrated IT system. Moreover, a decision has yet to be made regarding the design of the VAT, as the authorities are still examining various options to mitigate its regressivity. The authorities committed to accelerating preparatory work and hope to be able to introduce the VAT by early 2009.

- Deepening PE reform and undertaking a review of public expenditures could contribute to further fiscal savings and improve the effectiveness of government spending. The authorities noted that they were working on developing an agenda for PE reform, which favors public private partnerships. Liquidations or outright sales not currently under consideration.

19. **The authorities did not exclude the possibility of raising civil servants wages, particularly in light of the start of the PPS reform.** Increasing wages to mitigate the impact of PPS reform would not be advisable as it would introduce a rigidity in the budget, put pressure on private sector wages, and would not alleviate the burden on other deserving segments of society.

C. Strengthening the Monetary/Exchange Rate Policy Framework

20. **In the context of the current transition in Syria's exchange rate arrangement, a key policy decision is whether the central bank should adopt a fixed exchange rate or allow some upfront flexibility**. The authorities and staff recognized that some limited flexibility was already built into the system prior to unification; such limited flexibility had served Syria well, as it allowed the exchange rate to respond to market forces, while providing a fairly solid nominal anchor. Volatility of the parallel market rate, at which the bulk of private sector transactions used to take place, and the associated transaction costs, had no obvious negative impact on trade expansion.

21. **The authorities were of the view that the exchange rate should remain the main nominal anchor of the monetary policy framework.** With only rudimentary monetary instruments, the exchange rate was the only variable the central bank could target effectively for the moment. Moreover, Syria's ample international reserves provided a comfortable cushion to deal with temporary shocks. At the same time, however, the authorities thought that pegging the unified exchange rate (either de jure or de facto) would not be advisable. In this regard, the authorities emphasized prevailing uncertainties about the equilibrium rate. These uncertainties, even if BOP data were to improve, are likely to persist far into the future as the economy's fundamentals continue to be impacted by the ongoing depletion of oil reserves, further trade liberalization, and the transition to a market economy. Also, fear-of-floating effects, which are small for the moment, could develop rapidly under a peg, given the high level of deposit dollarization of the nascent private banking sector (see below and Box 2).

22. **In this context, the authorities noted that the challenge for the CBS in the next 12 months was to establish credibility in operating a managed float within a tight trading range.** This would require: (i) speeding the process of licensing the foreign exchange bureaus;[14] (ii) creating a unified interbank foreign exchange market in which the CBS could establish itself as a credible market maker; (iii) gaining sole control over exchange rate management by transferring the remaining international reserves owned by the Commercial Bank of Syria (CBoS) (60 percent of total reserves) to the CBS in exchange for market-based remunerated government securities;[15] (iv) working with the ministry of finance to establish the long-delayed government securities market and improving public debt management; (v) establishing mechanisms to control liquidity, including by promoting an interbank market; and (vi) addressing the weaknesses in the BOP statistics to develop reliable

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[14] Only five foreign exchange bureaus have been licensed so far; 117 pending requests for licensing are being processed.

[15] With the CBoS's open exchange position equal to 7 times its capital, the risk is high of uncompetitive behavior in the FX market; in addition, day-to-day transactions of the CBoS could hinder the objectives of the CBS and lead to incoherent policies.

indicators on exchange rate misalignment. Moreover, the credibility of the regime in maintaining price stability and avoiding an erosion of external competitiveness will hinge critically on supportive fiscal and incomes policies.

23. **The authorities have announced that they plan to switch the referencing of the SP from the U.S. dollar to the SDR under the managed float regime.** Once the CBS gains credibility in operating the new regime and a better understanding of BOP developments, such a move would be appropriate. Referencing to a basket ensures greater stability of the nominal effective exchange rate, and therefore minimizes the macroeconomic disturbances induced by fluctuations in the cross-rates between the major currencies. It would also be a useful intermediate step in moving toward greater flexibility. These benefits are likely to outweigh any costs of moving away from targeting a single currency, including some weakening of the role of the exchange rate as a nominal anchor. This is due to Syria's limited reliance on the U.S. dollar in wage negotiations and other contracts.

24. **The staff estimates suggest that Syria's external current account deficit has increased significantly in recent years owing to the sharp drop in oil exports.** Looking forward, however, the authorities' intentions to implement a further strong fiscal adjustment and deepen structural reforms are consistent with promoting external stability and achieving a sustainable current account deficit. The authorities were of the view that the level of the exchange rate was broadly appropriate, given the strong performance of non-oil exports and the absence of protracted losses of reserves. In light of the lack of adequate BOP data, it was not possible for staff to compute CGER indicators.

25. **The authorities expressed their intention to move quickly toward removing all the remaining foreign exchange restrictions and multiple currency practices and hoped to be a in a position to accept the obligations under Article VIII before the end of the year.**[16] The staff encouraged the authorities to provide a legal basis to the ongoing current account liberalization by adopting a new foreign exchange law. The staff noted that the Fund stands ready to assist them on the preparatory steps for Article VIII acceptance.

D. Financial Sector Development

26. **Notwithstanding the commendable efforts made to develop the financial sector, there are still numerous impediments and several sources of vulnerabilities:**

- The development of a competitive banking sector is constrained by the slow progress in state banks' restructuring. The unreformed public banks, characterized by high

[16] The mission left a note with the authorities detailing its preliminary assessment of the remaining restrictions that would need to be removed. Ahead of the formal acceptance of Article VIII obligations, further joint work by LEG/MCM would be necessary to verify that all appropriate steps have been taken.

non-performing loans, low profitability and undercapitalization will likely hinder further reforms, for fear of a loss of market share and a decline in profitability.

- Banks incur heavy costs in managing SP liquidity owing to administered deposit interest rates and slow progress in developing market-based instruments to manage liquidity. These costs might increase further with the CBS policy of raising the minimum capital requirement in an environment of limited lending opportunities and increased competition, which may lead to excessive risk taking or encourage further dollarization (currently, 55 percent of private banks deposits are denominated in U.S. dollars).[17] Although lending in U.S. dollars is not generally allowed, except for trade financing, banks are likely to be blurring the distinction between lending for trade and project financing, which increases their exposure to credit risk of poorly hedged borrowers.
- Progress in building up regulatory and supervisory capacity has not kept pace with financial liberalization, which is particularly worrisome in light of private banks' fast-paced credit expansion (Box 2). The ability of bank supervision to assess the adequacy of banks' internal controls and their risk management practices is limited, and the CBS compiles only a restricted set of financial soundness indicators to monitor the health of the banking system (Table 11). Regulatory forbearance, the existence of other regulatory agencies, and weak operational independence undermine the supervisory process. Under these circumstances, systemic risks could go undetected, and excessive risk taking by some banks, including country risk associated with their placement abroad, could threaten their solvency.
- Lastly, slow progress in developing the payments system imposes large costs on banks. Additional costs arise from difficulties in registering and enforcing collaterals.

27. **The authorities agreed on giving priority to building supervisory capacity and restructuring the state banks.** They indicated that their request for an FSAP was motivated by the need to make a thorough assessment of the progress achieved so far and lay a road map for reforms in the next 2–3 years. They also noted that with technical assistance from the Fund and other donors the CBS is progressively addressing existing capacity constraints, most notably in the areas of bank supervision (staff of the supervision department has been tripled to about 70 in the past few years), research, accounting, and reserve management. The authorities are also seeking to build broad support for the adoption of a draft central bank law that would give the CBS greater autonomy and strengthen its supervisory authority.

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[17] For the moment, this largely reflects a transfer to the new private banks of Syrian deposits that were held aboard.

E. Trade Liberalization and other Structural Reforms

28. **Further efforts on trade liberalization and improving the business climate are key elements of the authorities' reform agenda.** The authorities noted the progress made in the past year in forging ahead with the ambitious agenda under the FYDP. Major highlights include the new investment law, which put foreign and domestic investors at par; the new amendments to the income tax law, which lowered tax rates and unified tax incentives; the adoption of a new Basic Finance law, which unified the current and investment budget and severed the links between PEs and the budget; and the completion of the round of tariff reduction started three years ago, which resulted in lowering the average tariff rate from 20 percent in 2003 to 14½ percent in 2006. The authorities were also optimistic about the benefits of the free trade agreement with Turkey and regarded the integration in the Great Arab Free Trade Area as having been generally successful. In addition, they indicated that passage of the draft laws on the central bank and public debt management was a top priority for the coming months, and committed to accelerating the process of adopting the competition and company laws.

IV. Staff Appraisal

29. **Syria's overall economic performance continued to be strong in 2006, and the outlook for 2007 is positive.** Notwithstanding an unsettled regional environment and the impact of a sharp decline in oil proceeds, the economic recovery that started in 2004 remains on track. Non-oil GDP grew at a brisk pace in 2006, benefiting from sizeable inflows from the Iraqi refugees and abundant liquidity in the Gulf region. Strong gains in non-oil exports and a pick up of private investment contributed to growth. The economy's supply responsiveness, a tighter credit policy, and fiscal discipline helped contain inflationary pressures, despite the large demand shock from the Iraqi influx. Also, the boom in investment approvals bodes well for the country's medium-term growth prospects.

30. **Looking forward, steadfast implementation of the ambitious 10th FYDP is essential to consolidate these gains**. Rebalancing growth toward investment and achieving durable gains in external markets require maintaining financial stability and deepening structural reforms. More competition in product markets, a friendlier and more transparent business environment, greater exposure to international competition, and further financial liberalization are necessary to close the reform-gap with other countries in the region and position Syria to take advantage of regional and global integration.

31. **The size and quality of the fiscal adjustment achieved in the past three years is commendable and has contributed to a significant strengthening of Syria's medium-term fiscal prospects.** However, given the prospective further decline in oil revenue, and the possible need to accommodate significant costs of bank restructuring, an additional strong fiscal effort is needed over the medium term. As further cuts in capital spending would start to hamper growth, the authorities are encouraged to move ahead with

the two key pillars of a credible fiscal consolidation strategy, namely the PPS reform and the introduction of a VAT with a single rate and few exemptions. Concerns about social equity would be best addressed by excises on luxury goods and well targeted spending programs, or by enhancing the progressivity of income taxes. A restrained wage policy is also essential to support the needed fiscal adjustment and protect competitiveness. In addition, the pace of tax administration reforms need to be accelerated to support the introduction of the VAT.

32. **Deepening PE reform could go a long way in improving efficiency and stopping the drain on the public finances.** The provision in the new public finance law to sever the links between PEs and the budget is a step in the right direction. However, for this reform to bear fruit, it is essential that PEs be subjected to the discipline of the market to avoid shifting their losses from the budget to the state banks and that all quasi-fiscal activities be reflected transparently in the budget. The authorities are also encouraged to restructure the public enterprises that are deemed viable, select those to be privatized, and develop case-by-case solutions, including liquidation, to deal with the rest. Allowing restructured PEs further flexibility in employment decisions, and in wage and pricing policies, will be essential for their future viability.

33. **Progress toward exchange rate unification and current account convertibility are important and welcome steps.** The enactment of a new foreign exchange law would send a strong signal about the irreversibility of these reforms and the authorities' commitment to re-entry into the global economy. The new legislation should abrogate the existing complex set of foreign exchange laws and regulations and enshrine full current account convertibility, a unified exchange rate, and repatriation of profits from FDI.

34. **In the current context, the central bank is encouraged to ensure a consistent implementation of a managed float within a tight trading range.** Such a regime strikes the right balance between the need to continue to use the exchange rate as the main nominal anchor while allowing some flexibility. In the future, greater flexibility will facilitate adjustment to the likely changes in the equilibrium real exchange rate arising from the ongoing depletion of oil reserves, trade liberalization, and the transition to a market economy.

35. **To maintain external stability over the medium term, Syria needs to continue with strong fiscal adjustment, accelerate structural reforms, and allow greater exchange rate flexibility.** Although it is difficult to come to a definitive conclusion in the absence of adequate BOP data, there are no indications that the exchange rate is significantly misaligned. This seems to be confirmed by the strong performance of non-oil exports, and the lack of protracted loss of international reserves or unsustainable official or quasi-official borrowing. Nonetheless, the staff believes that the impact of the recent real appreciation on external competitiveness should continue to be monitored carefully, particularly in light of the depletion of oil reserves, and the large uncertainties about the level of the current account deficit and the sources of its financing. Looking ahead, priority should be given to improving

the BOP statistics to provide a basis for developing indicators to assess exchange rate misalignment.

36. **The new monetary/exchange rate policy framework needs to be supported by the prompt introduction of market-based instruments of monetary control.** This is important to enhance monetary management, facilitate interest rate liberalization, alleviate the costs on banks of managing Syrian pound liquidity, and pave the way toward greater exchange rate flexibility in the medium term. The authorities are encouraged to move swiftly on the much delayed agenda of launching a government securities market and improving public debt management.

37. **The rapid take-off of private banking, although promising, illustrates potential pitfalls in the sequencing of reforms.** In this regard, it is essential that the strengthening of the regulatory and supervisory capacity keeps pace with financial liberalization. Vigorous action is required to restructure the state banks to stem the accumulation of additional nonperforming loans and encourage greater competition. Moreover, quick progress in developing market-based instruments of monetary control is also needed to reduce excessive risk taking and discourage dollarization. The central bank should also play a catalytic role in setting up a credit registry.

38. **A new central bank law is essential to strengthen the monetary policy framework, improve bank supervision, and modernize the CBS.** The law should enshrine price stability as the main objective of monetary policy and grant the CBS operational independence in monetary and exchange rate management. It should also give full supervisory authority to the CBS over all banking institutions, and grant the CBS the autonomy required to set its own budget within agreed guidelines with the government. These improvements are necessary if the central bank is to manage successfully the more complex monetary and financial system that is emerging.

39. **A challenging task ahead is to implement the legislation adopted in recent years in an effective manner.** This will require an infusion of new technical expertise in the public administration. The cost of paying competitive wages to attract skilled personnel pales in comparison to its potential benefits. The authorities are encouraged to introduce a special fast-track scheme to attract highly skilled managers and to provide intensive training to newly hired young graduates, while continuing to work toward a far-reaching civil service reform.

40. **The progress made in furthering market reforms is welcome, but the remaining structural reform agenda is substantial.** The authorities are encouraged to further streamline the list of prohibited imports, abolish the system of industrial quotas, reduce the number of tariff bands, and eliminate nontariff barriers. Removing barriers to competition in product markets and tackling the high costs of contract enforcement, starting a business, and property registration can also have a large payoff in increasing labor productivity and

promoting Syria's export potential. Moreover, the authorities are encouraged to speed up the process of adopting the new competition and company laws.

41. **The quality of Syria's data is not fully adequate for surveillance purposes and could lead to policy mistakes.** Utmost priority should be given to mobilizing the needed expertise to upgrade the statistical system, particularly in the areas of the BOP and the national accounts and price statistics. It is also important to develop short-term indicators of economic activity to monitor the state of the economy on a timely basis.

42. Syria continues to maintain exchange restrictions under Article XIV, Section 2 (Appendix I). It also maintains exchange measures subject to approval under Article VIII (Appendix I). Absent specific measures to eliminate these exchange restrictions and multiple currency practices in a timely manner, the staff does not recommend that the Executive Board grant approval for their retention. The staff urges the authorities to eliminate remaining restrictions and multiple currency practices without delay.

43. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Appendix I. Syrian Arab Republic: Reforms Since the Last Article IV Consultation

Fiscal

- A draft public debt management law has been submitted to the Cabinet and is expected to be approved soon.
- A new Basic Finance Law was approved in October, 2006, replacing a 1967 law. The law revamps public finance management rules and unifies the budget by bringing the investment budget under the purview of the ministry of finance. It also sets new rules for arms' length relationship with PEs, allowing them to retain their after-tax profits and to decide on their investment programs, provided they can secure financing from the markets. The new law will take effect with the 2008 budget.
- The 2003 income tax law was amended a second time, lowering further the top marginal corporate rate from 35 to 28 percent (and to 14 percent for shareholding companies). (Decree No. 51 of October 1, 2006). Furthermore, the amendment provides uniform tax incentives to projects under the new investment law in order to encourage labor intensive activities and investment in rural areas (see below).
- The tax rate on real estate sales and rentals was reduced further, and the tax structure simplified (Decrees No. 52 and 53 of October 2, 2006).
- The first large taxpayers unit was opened in September, 2006, a landmark in the modernization of tax administration to prepare for the adoption of the VAT.

Monetary and financial

- In August 2006, the Money and Credit Council issued several decisions aimed at liberalizing and reforming the interest rate structure. In particular, lending rates for state banks were liberalized; interest rates on current account deposits were unified at one percent, and banks' deposits at the CBS in excess of the statutory reserve requirement started to be remunerated at a rate of one percent.
- Seven foreign exchange bureaus and companies which used to operate in the parallel market have been licensed, and over 100 applications are being processed.
- Four new private banks and, for the first time, eight private insurance companies started operations in 2006.[18] Three Islamic banks and one Islamic insurance company were licensed in 2007.

[18] The Law is not clear as to limits on foreign ownership in private insurance companies.

- The minimum capital requirement for private banks is expected to be raised soon from US$30 million to US$100 million.
- Decree No 55 issued on October 1, 2006, established the Damascus Securities Exchange (DSE). The DSE is expected to start operations early in 2008, with 46 companies expected to trade initially.
- Decree No 15 of February 19, 2007 allowed the licensing of financial institutions for micro credit with a minimum capital of US$5 million.

Exchange rate, trade, and market regulation

- Licensed banks have been authorized to finance all permitted imports (Decree No. 5204, September 2006).
- The official budget rate was abolished on January 1, 2007. One single market reference rate is now quoted by the CBS.
- The Free Trade Agreement with Turkey went into effect in January 2007.
- A new customs law adopted in October 2006 allowed for further automation and streamlining of customs procedures, including implementation of ASYCUDA.
- In August 2006, the authorities published, for the first time, the list of prohibited imports.
- A new law (Decree No 8 of January 27, 2007) ended all tax exemptions that used to be offered under investment law No. 10 of 1991 (mainly a tax holiday for the first five years of operation of a project, plus two additional years if at least half of the value added was destined for foreign markets).[19] The exemption from customs duties on all imported equipment was maintained. The new law also allows full annual repatriation of profits—the previous law allowed repatriation of profits derived from export activities only—and ownership of land. The new law covers all sectors with the exception of tourism, financial services, and real estate.

[19] For investment in tourism, which is governed by another law, the previous exemptions included a tax holiday for seven years, plus 50 percent discount on the profit tax thereafter. The discount has been phased out.

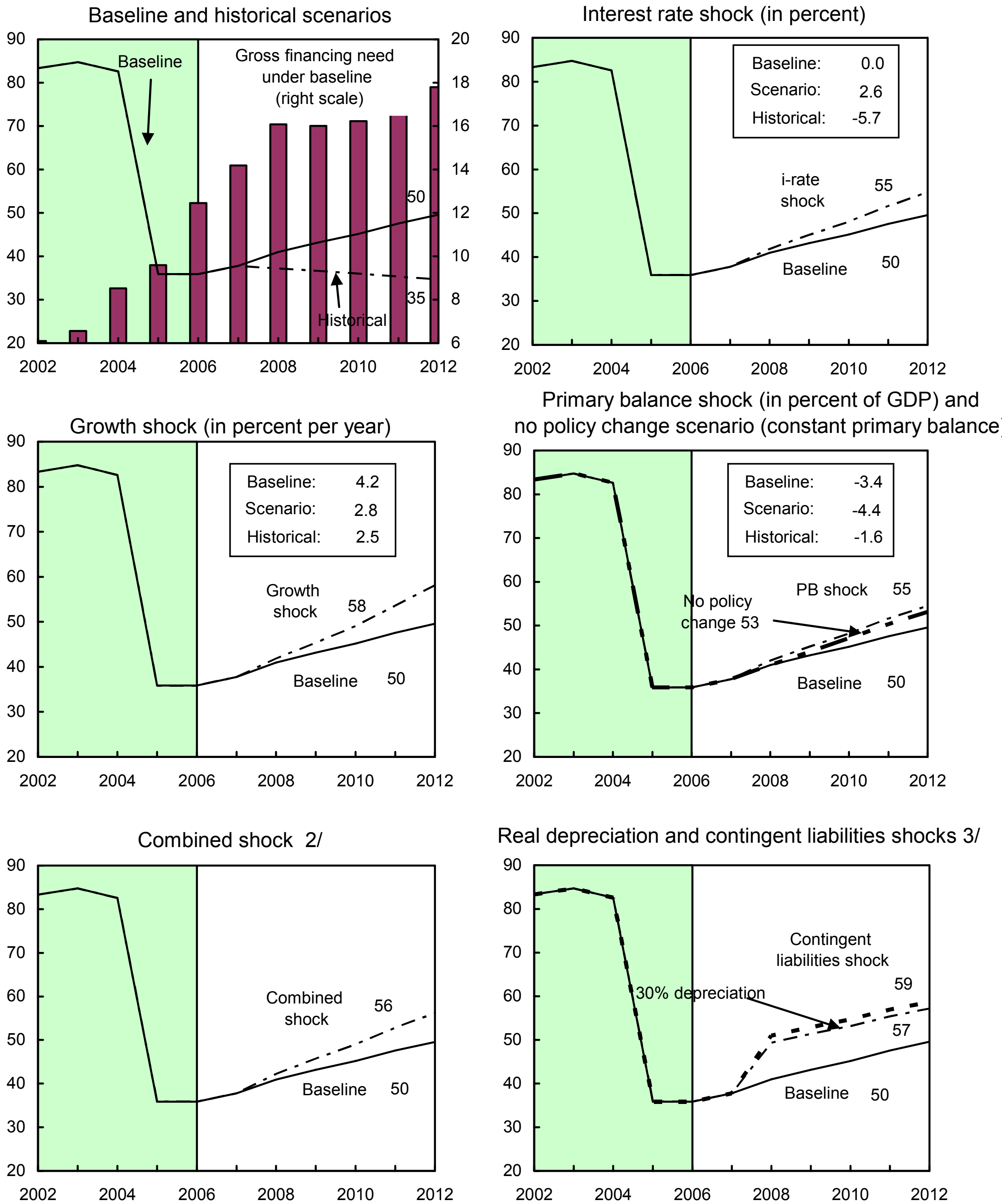
- Decree No 9 of January 27, 2007 established a new Investment Authority in charge of regulating investment, overseeing the improvement of the investment climate, and promoting investment in Syria. The SIA will operate a one-stop-shop service to facilitate business start ups.

- Consumer protection and food safety laws were passed in late 2006.

Reforms "in the pipeline"

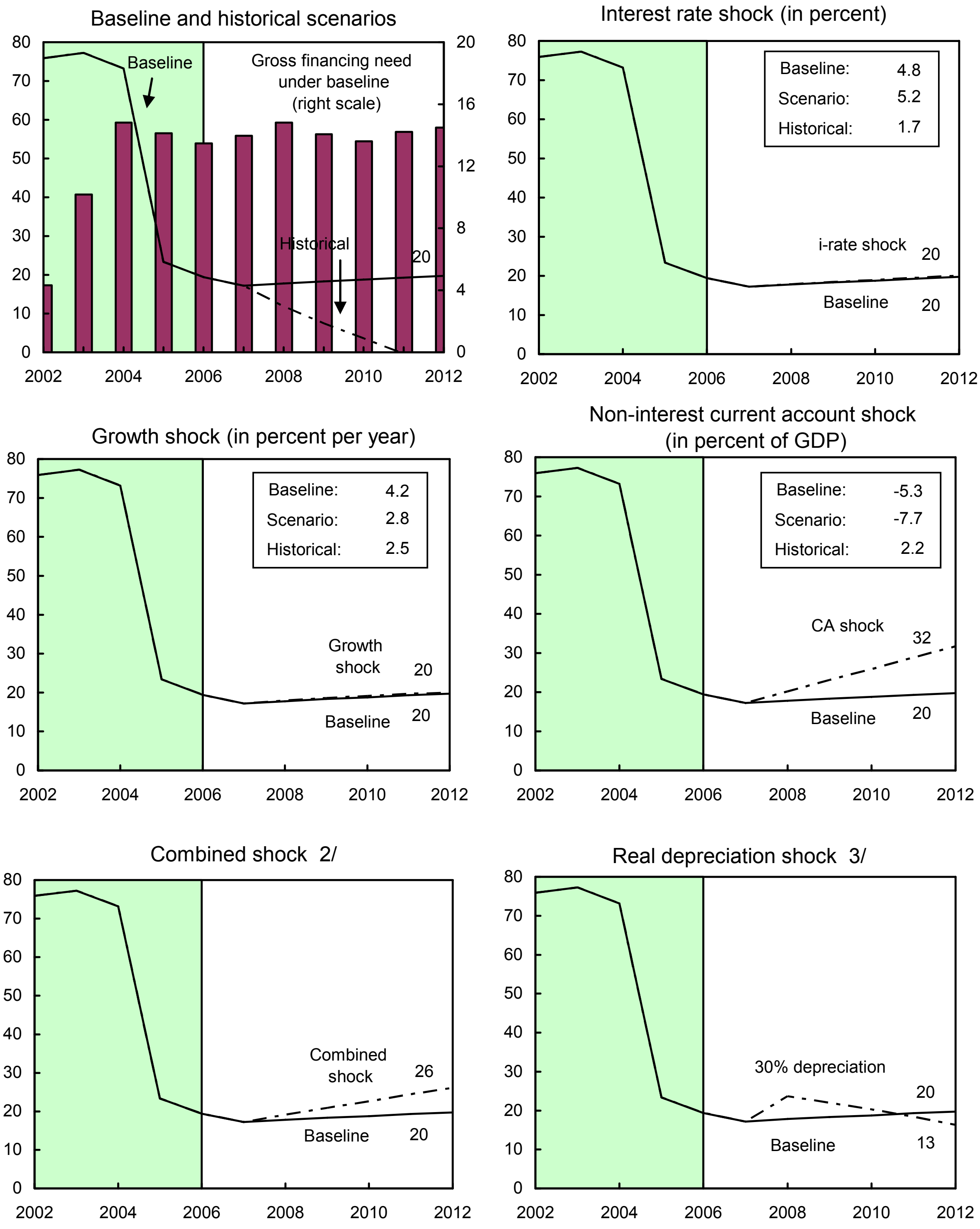
- The draft company and competition laws have been approved by the Cabinet and submitted to Parliament.
- Two laws on real estate development and mortgage lending have already been drafted and are expected to be adopted soon.
- A draft Central Bank Law would be adopted in late 2007–early 2008.
- The 49 percent limit on foreign ownership in banks is expected to be raised in 2007/08, which will allow full branching by international banks.
- A credit registry is expected to become operational in late 2007/early 2008.
- A law is being drafted to pave the way toward incorporating the Syrian Telecommunications Company and creating an independent regulatory body.
- A draft law has been submitted to the Cabinet, which will encourage family run businesses to turn into private shareholding companies. It will also encourage greater transparency in business's books by eliminating punitive taxation and antiquated FX accounting rules.

Figure 3. Syrian Arab Republic: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 4. Syrian Arab Republic: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2008.

Table 1. Syrian Arab Republic: Selected Economic Indicators, 2003–07

	2003	2004	2005	Prel. 2006	Proj. 2007
	(Change in percent, unless otherwise indicated)				
National income and prices					
Nominal GDP (LS billions)	1,118.0	1,263.8	1,493.6	1,780.9	1,920.7
Oil GDP	228.8	264.3	362.2	421.0	379.5
Non-oil GDP	889.2	999.5	1,131.4	1,359.9	1,541.3
Nominal GDP ($ billions)	22.7	25.0	28.6	34.9	36.9
Real GDP	1.1	2.8	3.3	4.4	3.9
Real non-oil GDP	2.5	5.0	6.0	6.5	5.8
GDP deflator	-1.1	10.0	14.4	14.2	3.8
CPI period average	5.8	4.4	7.2	10.0	7.0
Total population (millions)	17.8	18.8	19.3	20.4	20.8
Syrian population (midyear estimate, millions)	17.6	18.0	18.4	18.9	19.3
Iraqi Immigrants (millions)	0.3	0.8	0.9	1.5	1.5
Total population growth	2.4	5.5	2.9	5.4	2.3
Oil sector					
Crude oil production ('000 barrels/day)	477	462	431	400	370
Net oil exports (crude and refined, '000 barrels/day)	282	187	130	70	56
Oil export price ($ per barrel)	26.9	33.4	48.3	57.9	57.4
	(In percent of GDP, unless otherwise indicated)				
Government finances 1/					
Revenue	28.8	27.2	24.0	21.9	22.0
Oil-related revenue	14.7	11.2	7.1	4.5	3.8
Non-oil revenue	14.0	16.0	16.9	17.4	18.2
Expenditure	31.4	31.4	28.4	27.6	27.0
Current expenditure	17.7	19.0	18.1	18.7	18.4
Development expenditure	13.7	12.4	10.3	8.9	8.6
Overall balance	-2.6	-4.2	-4.4	-5.7	-5.0
Non-oil budget balance	-17.3	-15.4	-11.6	-10.2	-8.9
Gross debt 2/	84.7	82.6	35.9	35.9	37.8
Domestic	7.5	9.4	12.5	16.5	20.6
External 2/	77.3	73.2	23.3	19.4	17.2
	(Changes in percent of initial stock of money excluding PE deposits)				
Money and quasi-money	7.6	13.5	12.0	14.6	15.5
Net foreign assets 3/	4.2	7.1	2.3	-1.7	4.0
Net domestic assets 3/	3.5	6.4	9.7	16.3	11.5
Credit to government	0.7	3.7	7.9	0.7	10.5
Credit to public enterprises	-0.1	-0.6	-0.7	7.7	0.5
Credit to private sector	4.1	5.7	8.9	4.6	5.0
Credit to private sector (change in percent)	30.3	35.0	45.9	18.4	19.2
Credit to private sector (in percent of GDP)	9.8	11.7	14.4	14.3	15.8
Reserve money (change in percent)	10.2	25.2	7.7	9.7	13.3
Money and quasi-money (in percent of GDP)	59.9	60.2	57.0	54.8	58.7
	(In billions of U.S. dollars, unless otherwise indicated)				
Balance of payments					
Oil Balance	2.4	1.3	0.6	0.1	-0.1
(in percent of GDP)	10.8	5.2	2.0	0.4	-0.1
Non-oil exports of goods and services	4.6	6.4	7.7	8.4	10.1
(change in percent)	15.9	38.9	20.4	9.5	20.8
(in percent of GDP)	20.2	25.4	26.8	24.0	27.5
Non-oil imports of goods and services	-7.5	-9.4	-10.4	-12.2	-13.1
(change in percent)	21.2	25.6	10.8	17.2	7.6
(in percent of GDP)	-32.8	-37.4	-36.2	-34.8	-35.5
Non-oil goods and services balance	-2.9	-3.0	-2.7	-3.1	-2.9
(in percent of GDP)	-12.7	-12.0	-9.5	-8.8	-8.0
Current account balance	0.2	-0.8	-1.2	-2.1	-2.2
(in percent of GDP)	0.8	-3.2	-4.1	-6.1	-5.8
Foreign direct investment (in percent of GDP)	0.7	1.1	1.7	1.7	3.1
Overall balance	0.6	0.2	0.0	-0.8	-0.6
Official net foreign assets	17.4	17.6	17.6	16.8	16.2
(in months of imports of GNFS)	25.4	20.0	16.4	13.4	12.1
Debt					
External debt (percent of GDP) 2/	77.3	73.2	23.3	19.4	17.2
Debt service-to-exports ratio (payments basis)	10.8	5.9	4.7	5.4	7.3
Exchange rates					
Weighted average nominal exchange rate LS/$ 4/	49.3	50.5	52.2	51.0	52.1
Real effective exchange rate (1990=100)	58.9	58.8	59.8	66.0	67.9
(change in percent)	3.4	-0.2	1.7	10.3	3.0

Sources: Syrian authorities; and Fund staff estimates and projections.

1/ Including the Price Stabilization Fund and a broad coverage of public enterprises.
2/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.
3/ In 2007 net of valuation adjustments.
4/ Trade-weighted average of official and parallel market rates.

Table 2. Syrian Arab Republic: Summary of Fiscal Operations, 2003–07 1/
(In percent of GDP)

	2003	2004	2005	Prel. 2006	Proj. 2007
Revenue	**28.8**	**27.2**	**24.0**	**21.9**	**22.0**
Oil-related proceeds	14.7	11.2	7.1	4.5	3.8
Profit tax on Syrian Petroleum Corp.	7.6	4.9	3.2	2.7	1.3
Royalties	2.8	2.0	2.2	2.5	1.2
Surplus from SPC	4.4	4.2	1.7	2.9	1.4
Adjustment to oil revenue 2/	...	...	...	-3.5	...
Non-oil tax revenue	10.5	11.5	10.7	11.2	11.8
Income and profits	3.5	4.7	4.0	3.8	4.0
International trade	2.6	2.5	2.1	1.7	1.9
Other	4.5	4.4	4.7	5.7	6.0
Non-oil non-tax revenue	3.4	4.4	6.0	6.2	6.3
PE surpluses	3.0	3.8	5.1	5.5	5.6
Others	0.5	0.6	0.9	0.7	0.7
PSF revenue	0.1	0.1	0.1	0.0	0.0
Expenditure	**31.4**	**31.4**	**28.4**	**27.6**	**27.0**
Current expenditure	17.7	19.0	18.1	18.7	18.4
Defense	5.3	5.9	5.3	5.1	3.9
Wages and salaries	5.3	5.5	5.2	5.4	5.6
Goods and services	1.7	1.5	1.4	1.8	1.9
Interest payments	0.7	0.9	1.2	1.0	0.9
Subsidies	2.6	2.4	2.3	2.3	2.6
PSF expenditure	2.5	2.1	2.0	2.0	2.1
Other subsidies	0.1	0.2	0.3	0.3	0.6
Transfers	2.1	2.8	2.7	3.2	3.4
Pensions and social assistance	1.0	1.1	1.1	1.6	1.9
Transfers to public enterprises	1.1	1.7	1.6	1.6	1.5
Development expenditure	13.7	12.4	10.3	8.9	8.6
Overall balance	**-2.6**	**-4.2**	**-4.4**	**-5.7**	**-5.0**
Non-oil balance (percent of non-oil GDP)	-21.8	-19.4	-15.3	-13.4	-11.0
Non-oil balance	**-17.3**	**-15.4**	**-11.6**	**-10.2**	**-8.9**
Non-oil balance (in percent of non-oil GDP)	-21.8	-19.4	-15.3	-13.4	-11.0
Non-oil revenue (in percent of non-oil GDP)	17.6	20.3	22.3	22.8	22.6
Expenditure (in percent of non-oil GDP)	39.4	39.7	37.5	36.2	33.7
Identified financing	0.1	2.9	4.8	5.3	5.0
External	0.0	0.1	0.2	0.3	-0.3
Domestic bank financing	0.4	2.0	4.0	5.4	5.3
Investment certificates	-0.3	0.8	0.5	-0.4	0.0
Unidentified financing	2.5	1.3	-0.4	0.5	0.0
Government debt 3/	**84.7**	**82.6**	**35.9**	**35.9**	**37.8**
Domestic	7.5	9.4	12.5	16.5	20.6
External 3/	77.3	73.2	23.3	19.4	17.2
Implicit petroleum price subsidies 4/	**3.3**	**6.4**	**9.6**	**10.2**	**10.3**

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Central government budget and Price Stabilization Fund (PSF).

2/ Adjustment to account for the drawdown on the Syrian Petroleum Company's bank deposits in order to derive an estimate of effective oil revenues.

3/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.

4/ Energy price subsidies, which include in addition to petroleum price subsidies, subsidies on natural gas, are estimated at 13.2 percent of GDP in 2007.

Table 3. Syrian Arab Republic: Summary of Fiscal Operations, 2003–07 1/
(In billions of Syrian pounds)

	2003	2004	2005	Prel. 2006	Proj. 2007
Revenue	**321.6**	**343.9**	**358.0**	**389.6**	**422.5**
Oil-related proceeds	164.7	141.2	106.2	80.1	73.4
Profit tax on Syrian Petroleum Corp.	84.6	62.4	48.0	47.9	24.6
Royalties	31.3	25.4	32.9	44.3	22.8
Surplus from SPC	48.8	53.3	25.2	50.8	26.1
Adjustment to oil revenue 2/	...	...	...	-62.9	...
Non-oil tax revenue	117.6	145.4	160.3	198.9	227.4
Income and profits	38.7	59.1	59.3	67.4	76.4
International trade	28.8	31.3	30.7	30.6	36.6
Other	50.1	55.0	70.3	100.9	114.4
Non-oil non-tax revenue	38.5	55.9	89.9	110.2	121.2
Public enterprise surpluses	33.2	48.0	75.9	97.9	107.3
Other non-tax revenue	5.4	7.9	14.0	12.2	13.9
PSF revenue	0.7	1.5	1.8	0.4	0.5
Expenditure	**350.6**	**396.9**	**424.5**	**491.8**	**519.2**
Current expenditure	197.7	240.3	270.1	333.4	354.1
Defense	59.0	74.7	78.7	90.5	74.3
Wages and salaries	59.2	69.5	78.3	95.5	108.3
Goods and services	19.0	19.3	21.5	32.3	36.6
Interest payments	7.5	11.0	17.4	17.9	18.1
Subsidies	29.6	29.8	33.6	40.1	50.7
PSF expenditure	27.9	27.0	29.6	35.3	40.0
Other subsidies	1.7	2.8	4.0	4.8	10.7
Transfers	23.4	36.0	40.5	57.1	66.3
Pensions and social assistance	11.2	14.4	16.3	28.2	37.3
Transfers to public enterprises	12.2	21.6	24.3	28.9	28.9
Development expenditure	152.9	156.6	154.4	158.3	165.1
Overall balance	**-29.0**	**-53.0**	**-66.4**	**-102.2**	**-96.7**
Of which: **Non-oil balance**	**-193.7**	**-194.1**	**-172.6**	**-182.3**	**-170.2**
Identified financing	0.7	36.6	71.7	93.7	96.7
External	0.1	1.3	3.2	4.8	-5.5
Borrowing	11.0	11.6	11.6	17.4	17.9
Repayment	10.9	10.3	8.4	12.6	23.4
Domestic bank financing	4.3	24.9	60.5	96.8	102.2
Central bank	-16.6	71.1	54.6	9.5	61.4
Commercial banks	20.9	-46.2	5.9	87.3	40.8
Non-bank financing (investment certificates held by non-banks)	-3.7	10.4	8.1	-7.9	0.0
Unidentified financing	28.3	16.4	-5.3	8.5	0.0
Memorandum items:					
Government debt 3/	**947.4**	**1,043.8**	**535.9**	**638.9**	**725.7**
Domestic	83.5	118.9	187.3	293.2	395.5
External 3/	863.9	925.0	348.6	345.7	330.3
Implicit petroleum price subsidies 4/	**37.2**	**80.6**	**144.0**	**181.9**	**198.8**

Sources: Ministry of Finance; Central Bank of Syria; and Fund staff estimates and projections.

1/ Central government budget and Price Stabilization Fund (PSF).
2/ Adjustment to account for the drawdown on the Syrian Petroleum Company's bank deposits in order to derive an estimate of effective oil revenues.
3/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.
4/ Energy price subsidies, which include in addition to petroleum price subsidies, subsidies on natural gas, are estimated at SP 254 billion in 2007.

Table 4. Syrian Arab Republic: Monetary Survey, 2003–07

	2003	2004	2005	Prel. 2006	Proj. 2007
	(In billions of Syrian pounds; end-of-period)				
Foreign assets (net)	702	750	767	753	792
Central bank	124	136	154	169	162
(In millions of U.S. dollars)	4,926	5,391	6,130	6,721	6,417
Commercial banks	578	614	613	583	630
(In millions of U.S. dollars)	12,435	12,410	12,210	11,657	12,096
Public banks	12,435	12,176	11,455	10,162	9,858
Private banks	0	234	755	1,494	2,238
Domestic assets (net)	186	238	334	429	548
Domestic assets (net) netted from PE deposits	*-32*	*10*	*84*	*223*	*336*
Domestic credit	342	410	555	623	785
Claims on public sector	233	263	340	368	481
Claims on public sector netted from PE deposits	14	35	90	162	269
Claims on central government (net)	55	80	141	147	249
Claims on public enterprises	178	182	199	221	232
Claims on public enterprises (net)	-41	-45	-51	15	20
Claims on private sector	109	148	215	255	304
Other items (net)	-156	-172	-221	-194	-237
Import and restricted deposits	-73	-99	-102	-121	-121
Capital accounts	-104	-132	-185	-311	-342
Valuation adjustment (net)	-47	-57	41	260	247
Other	68	115	25	-21	-21
Money and quasi-money (M2)	889	988	1,101	1,182	1,339
Currency outside banks	285	333	385	399	452
Syrian pound deposits	407	462	500	536	608
Of which: PE deposits	196	193	217	162	167
Foreign exchange deposits	40	63	95	102	116
Of which: PE deposits	22	34	33	44	45
Money and quasi-money (M2) excluding PE deposits	670	761	851	976	1,127
	(Change in percent of the initial stock of broad money excluding PE deposits)				
Net foreign assets	4.2	7.1	2.3	-1.7	4.0
Domestic assets (net)	3.5	6.4	9.7	16.3	11.5
Domestic credit	4.7	8.8	16.1	13.1	16.0
Claims on central government (net)	0.7	3.7	7.9	0.7	10.5
Claims on public enterprises (net)	-0.1	-0.6	-0.7	7.7	0.5
Claims on private sector	4.1	5.7	8.9	4.6	5.0
Other items (net)	-1.2	-2.5	-6.4	3.3	-4.5
Money and quasi-money (M2) excluding PE deposits	7.6	13.5	12.0	14.6	15.5
	(Annual change in percent)				
Currency outside banks	10.3	16.8	15.6	3.7	13.3
Claims on private sector	30.3	35.0	45.9	18.4	19.2
Reserve money	10.2	25.2	7.7	9.7	13.3
	(In percent of GDP)				
Broad money (M2)	79.5	78.2	73.7	66.4	69.7
Credit to private sector	9.8	11.7	14.4	14.3	15.8
Credit to public enterprises	15.9	14.4	13.3	12.4	12.1
Change in net claims on central government (bil SP)	4.3	24.9	60.5	6.3	102.2
Change in net claims on central government	0.4	2.0	4.0	0.4	5.3
Change in net claims on PE (bil SP)	-19.5	-4.0	-5.6	65.5	4.9
Memorandum items:					
Currency to deposits ratio	47.2	50.8	53.7	51.0	51.0
Ratio of FX deposits to total deposits	6.6	9.7	13.3	13.1	13.1
Growth in public banks' credit to private sector	9.8	11.7	38.7	10.9	…
Growth in private banks' credit to private sector	0.0	0.0	281.7	106.9	…

Sources: Central Bank of Syria; and Fund staff estimates and projections.

Table 5. Syrian Arab Republic: Central Bank Balance Sheet, 2003–07

	2003	2004	2005	Prel. 2006	Proj. 2007
			(In billions of Syrian pounds)		
Net foreign assets	124.1	135.8	154.5	169.4	161.7
[In millions of U.S. dollars]	*4,926*	*5,391*	*6,130*	*6,721*	*6,417*
Net domestic assets	253.5	336.9	354.8	389.2	471.4
Net domestic credit	88.7	129.4	182.8	204.5	286.6
Net credit to government	-86.2	-15.2	39.4	48.9	110.3
Credit to public enterprises	0.1	0.1	0.1	0.1	0.1
Credit to banks	174.8	144.5	143.3	155.5	176.2
Other items (net) 1/	164.8	207.5	172.0	184.7	184.7
Reserve money	377.7	472.8	509.3	558.6	633.1
Currency issued	294.4	344.3	407.4	411.4	466.3
Currency outside banks	285.0	332.8	384.7	399.0	452.3
Currency with banks	9.4	11.5	22.7	12.4	14.0
Deposits of public enterprises	13.1	22.5	15.5	19.7	22.3
Deposits of banks	69.9	105.7	85.9	127.0	143.9
Other non-government, non-bank deposits	0.4	0.4	0.5	0.5	0.5
			(Change in percent of initial stock of reserve money)		
Net foreign assets	5.3	3.1	3.9	2.9	-1.4
Net domestic assets	4.9	22.1	3.8	6.8	14.7
Net domestic credit	2.8	10.8	11.3	4.3	14.7
Net credit to government	-4.8	18.8	11.5	1.9	11.0
Credit to public enterprises	0.0	0.0	0.0	0.0	0.0
Credit to banks	7.6	-8.0	-0.2	2.4	3.7
Other items (net)	2.1	11.3	-7.5	2.5	0.0
Reserve money	10.2	25.2	7.7	9.7	13.3

Source: Central Bank of Syria.

1/ The decline in 2007 is due to lower valuation adjustment.

Table 6. Syrian Arab Republic: Balance of Payments, 2003–07
(In millions of U.S. dollars; unless otherwise indicated)

	2003	2004	Est. 2005	Est. 2006	Proj. 2007
Current account balance	**181**	**-811**	**-1,177**	**-2,133**	**-2,153**
(In percent of GDP)	*0.8*	*-3.2*	*-4.1*	*-6.1*	*-5.8*
Of which: non-oil current account balance	-2,875	-3,000	-2,716	-3,071	-2,950
(In percent of GDP)	-12.7	-12.0	-9.5	-8.8	-8.0
Oil balance	**2,450**	**1,308**	**563**	**143**	**-53**
(In percent of GDP)	*10.8*	*5.2*	*2.0*	*0.4*	*-0.1*
Exports, f.o.b.	4,111	3,395	4,300	4,076	3,869
Imports, f.o.b.	-737	-1,156	-2,473	-2,883	-3,046
Repatriation of profits of oil and gas companies	-924	-931	-1,264	-1,050	-875
Non-oil goods and services balance	**-2,875**	**-3,000**	**-2,716**	**-3,071**	**-2,950**
(In percent of GDP)	*-12.7*	*-12.0*	*-9.5*	*-8.8*	*-8.0*
Trade balance	-2,612	-3,220	-3,209	-3,042	-2,997
Exports, f.o.b.	3,037	3,748	4,749	6,162	6,913
Public	455	322	421	452	508
Private	2,582	3,426	4,328	5,710	6,406
Imports, f.o.b.	-5,649	-6,968	-7,958	-9,204	-9,911
Public	-871	-1,069	-971	-1,948	-2,016
Private	-4,778	-5,899	-6,987	-7,256	-7,895
Balance of services	-263	220	493	-29	48
Receipts	1,543	2,613	2,911	2,924	3,213
Of which: travel and tourism	986	1,800	1,944	2,025	2,268
Payments	-1,806	-2,393	-2,418	-2,953	-3,165
Income (net)	**67**	**202**	**225**	**230**	**236**
Credit	282	385	395	428	463
Debit	-215	-183	-170	-198	-228
Transfers (net)	**539**	**679**	**751**	**565**	**614**
Credit	554	694	765	610	659
Of which: workers' remittances	530	689	761	610	659
Identified capital and financial account balance	**182**	**-131**	**-480**	**-535**	**320**
(In percent of GDP)	*0.8*	*-0.5*	*-1.7*	*-1.5*	*0.9*
Capital account (migrants' transfers)	20	18	18	18	18
Direct investment	160	275	500	600	1,151
Of which: Gas project-related	90	150	151	125	125
Long-term government debt (net)	2	-187	-473	-414	-105
Receipts	224	215	138	86	429
Payments	-222	-402	-611	-500	-534
Private banks	0	-237	-525	-739	-744
Inflows related to Iraqi immigrants	**0**	**457**	**803**	**1,309**	**1,225**
Errors and omissions	**223**	**686**	**872**	**606**	**0**
(in percent of GDP)	*1.0*	*2.7*	*3.0*	*1.7*	*0.0*
Overall balance	**585**	**202**	**18**	**-753**	**-608**
(in percent of GDP)	*2.6*	*0.8*	*0.1*	*-2.2*	*-1.6*
Net change in reserves (increase = -)	**-585**	**-202**	**-18**	**753**	**608**
Convertible	-934	-181	-448	752	608
Central Bank	-765	-443	-1,169	-541	304
Commercial Bank of Syria	-169	263	721	1,293	304
Nonconvertible (Central Bank)	348	-21	430	1	0
Memorandum items:					
NFA of the Central Bank and the CBoS	**17,362**	**17,567**	**17,585**	**16,833**	**16,225**
(In months of imports of G&S)	25.4	20.0	16.4	13.4	12.1
Government external debt (in millions of dollars) 1/	17,537	18,318	6,682	6,778	6,340
(In percent of GDP)	77.3	73.2	23.3	19.4	17.2
Debt service (in percent of exports of G&S) 1/	10.8	5.9	4.7	5.4	7.3
Weighted average nominal exchange rate (LS/$) 2/	49.3	50.5	52.2	51.0	52.1
GDP (in billions of dollars) 2/	22.7	25.0	28.6	34.9	36.9
Real effective exchange rate (1990=100)	58.9	58.8	59.8	66.0	67.9
(change in percent)	3.4	-0.2	1.7	10.3	3.0

Sources: Central Bank of Syria; and Fund staff estimates and projections.

1/ Officially acknowledged debt; excludes military debt. The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.
2/ Trade-weighted average of the parallel market rate and official rates.
3/ Calculated using the weighted average exchange rate.

Table 7. Syrian Arab Republic: Medium-Term Macroeconomic Framework, 2005–12

		Prel.	Proj.					
	2005	2006	2007	2008	2009	2010	2011	2012
	(Change in percent, unless otherwise indicated)							
National income and prices								
Nominal GDP (LS billions)	1,493.6	1,780.9	1,920.7	2,106.6	2,311.5	2,512.4	2,704.1	2,924.7
Oil GDP	362.2	421.0	379.5	375.0	366.0	347.1	316.9	292.8
Non-oil GDP	1,131.4	1,359.9	1,541.3	1,731.6	1,945.5	2,165.3	2,387.2	2,631.9
Nominal GDP ($ billions)	28.6	34.9	36.9	38.8	40.4	42.2	44.0	46.2
Real GDP	3.3	4.4	3.9	3.7	4.8	4.6	3.9	4.0
Real non-oil GDP	6.0	6.5	5.8	5.0	5.0	5.0	5.0	5.0
GDP deflator	14.4	14.2	3.8	5.7	4.7	3.9	3.6	4.0
CPI period average	7.2	10.0	7.0	7.0	7.0	6.0	5.0	5.0
Oil sector								
Crude oil production ('000 barrels/day)	431	400	370	352	359	363	345	330
Net oil exports (crude and refined, '000 barrels/day)	130	70	56	39	39	36	7	-19
Oil export price ($ per barrel)	48.3	57.9	57.4	61.9	61.7	60.1	59.4	59.0
	(In percent of GDP, unless otherwise indicated)							
Government finances 1/								
Revenue	24.0	21.9	22.0	22.3	23.3	23.7	23.9	24.1
Oil-related revenue	7.1	4.5	3.8	3.0	3.5	3.5	2.6	1.8
Non-oil revenue	16.9	17.4	18.2	19.3	19.8	20.2	21.3	22.3
Expenditure	28.4	27.6	27.0	28.1	28.3	28.5	28.9	29.0
Current expenditure	18.1	18.7	18.4	19.5	19.7	19.9	20.3	20.4
Development expenditure	10.3	8.9	8.6	8.6	8.6	8.6	8.6	8.6
Overall balance	-4.4	-5.7	-5.0	-5.9	-5.0	-4.7	-5.0	-5.0
Nonoil budget balance	-11.6	-10.2	-8.9	-8.9	-8.5	-8.3	-7.6	-6.8
Gross debt 2/	35.9	35.9	37.8	41.0	43.2	45.2	47.6	49.6
Domestic	12.5	16.5	20.6	23.2	24.8	26.4	28.3	29.9
External 2/	23.3	19.4	17.2	17.8	18.3	18.8	19.3	19.7
	(Changes in percent of initial stock of money)							
Money and quasi-money	12.0	14.6	15.5	14.1	13.9	12.6	11.3	11.2
Net foreign assets 3/	2.3	-1.7	4.0	1.0	0.4	-0.4	-1.1	-1.5
Net domestic assets 3/	9.7	16.3	11.5	13.1	13.5	13.0	12.4	12.7
Credit to government	7.9	0.7	10.5	7.7	6.3	5.7	5.7	5.5
Credit to public enterprises	-0.7	7.7	0.5	0.5	0.4	0.4	0.4	0.4
Credit to private sector	8.9	4.6	5.0	6.5	7.1	7.6	7.2	7.9
Credit to private sector (change in percent)	45.9	18.4	19.2	23.9	24.3	23.8	20.5	20.6
Credit to private sector (in percent of GDP)	14.4	14.3	15.8	17.9	20.3	23.1	25.8	28.8
	(In billions of U.S. dollars, unless otherwise indicated)							
Balance of payments								
Oil balance	0.6	0.1	-0.1	-0.4	-0.2	-0.3	-0.8	-1.3
(in percent of GDP)	2.0	0.4	-0.1	-1.0	-0.6	-0.6	-1.8	-2.8
Non-oil exports of goods & services	7.7	8.4	10.1	10.6	11.0	11.5	12.1	12.8
(in percent of GDP)	26.8	24.0	27.5	27.2	27.2	27.2	27.5	27.8
Non-oil imports of goods & services	-10.4	-12.2	-13.1	-13.7	-14.2	-14.7	-15.3	-16.0
(in percent of GDP)	-36.2	-34.8	-35.5	-35.2	-35.0	-34.8	-34.7	-34.6
Non-oil goods and services balance	-2.7	-3.1	-2.9	-3.1	-3.1	-3.2	-3.2	-3.1
(in percent of GDP)	-9.5	-8.8	-8.0	-8.0	-7.8	-7.6	-7.2	-6.7
Current account balance	-1.2	-2.1	-2.2	-2.6	-2.3	-2.3	-2.7	-3.0
(in percent of GDP)	-4.1	-6.1	-5.8	-6.6	-5.8	-5.6	-6.2	-6.5
Foreign direct investment (in percent of GDP)	1.7	1.7	3.1	3.9	4.0	4.1	4.2	4.3
Overall balance	0.0	-0.8	-0.6	-0.4	-0.4	-0.6	-0.7	-0.8
Official net foreign assets	17.6	16.8	16.2	15.8	15.4	14.8	14.1	13.4
(in months of imports of GNFS)	16.4	13.4	12.1	11.4	10.7	9.9	9.0	8.1
Debt								
External debt (percent of GDP) 2/	23.3	19.4	17.2	17.8	18.3	18.8	19.3	19.7
Debt service-to-exports ratio (payments basis)	4.7	5.4	7.3	7.5	8.0	7.6	7.7	7.7

Sources: Syrian authorities; and Fund staff estimates and projections.

1/ Including the Price Stabilization Fund and a broad coverage of public enterprises.

2/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.

3/ Starting in 2008 net of valuation adjustments.

Table 8. Syrian Arab Republic: Public Sector Debt Sustainability Framework, 2002–12
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2002	2003	2004	2005	2006			2007	2008	2009	2010	2011	2012	
								I. Baseline Projections						**Debt-stabilizing primary balance 10/**
Public sector debt 1/	83.3	84.7	82.6	35.9	35.9			**37.8**	**41.0**	**43.2**	**45.2**	**47.6**	**49.6**	**-1.4**
of which: foreign-currency denominated	75.9	77.3	73.2	23.3	19.4			17.2	17.8	18.3	18.8	19.3	19.7	
Change in public sector debt	-2.9	1.4	-2.1	-46.7	0.0			1.9	3.2	2.2	2.0	2.4	2.0	
Identified debt-creating flows (4+7+12)	-4.7	2.9	-3.9	-6.2	-0.5			2.8	3.2	2.3	2.0	2.3	1.9	
Primary deficit	1.4	1.9	3.3	3.3	4.7			4.1	4.1	3.2	3.0	3.3	3.2	
Revenue and grants	26.5	28.8	27.2	24.0	21.9			22.0	22.3	23.3	23.7	23.9	24.1	
Primary (noninterest) expenditure	27.9	30.7	30.5	27.3	26.6			26.1	26.4	26.5	26.7	27.1	27.3	
Automatic debt dynamics 2/	-6.1	0.9	-7.2	-9.5	-5.2			-1.3	-0.9	-1.0	-1.0	-0.9	-1.3	
Contribution from interest rate/growth differential 3/	-7.7	0.7	-8.9	-11.5	-4.8			-1.7	-1.6	-1.9	-1.7	-1.5	-1.9	
of which: contribution from real interest rate	-3.1	1.6	-6.8	-9.2	-3.5			-0.4	-0.3	-0.1	0.1	0.1	-0.1	
of which: contribution from real GDP growth	-4.6	-0.9	-2.1	-2.3	-1.3			-1.3	-1.3	-1.8	-1.8	-1.6	-1.8	
Contribution from exchange rate depreciation 4/	1.6	0.3	1.7	2.1	-0.5			0.4	0.7	0.9	0.7	0.6	0.6	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	1.9	-1.5	1.7	-40.5	0.5			-0.9	0.0	0.0	0.0	0.1	0.1	
Public sector debt-to-revenue ratio 1/	315.0	294.6	303.5	149.7	164.0			171.8	184.0	185.4	190.3	199.3	205.8	
Gross financing need 5/	6.1	6.6	8.5	9.6	12.4			14.2	16.1	16.0	16.2	17.2	17.8	
In billions of U.S. dollars	1.4	1.5	2.1	2.7	4.3			5.2	6.2	6.5	6.8	7.6	8.2	
Key macroeconomic and fiscal assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	5.9	1.1	2.8	3.3	4.4	2.5	2.8	3.9	3.7	4.8	4.6	3.9	4.0	4.2
Average nominal interest rate on public debt (in percent) 6/	0.8	0.8	1.2	1.7	3.3	1.7	0.9	2.8	5.0	4.7	4.4	4.1	3.9	4.4
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-3.8	1.9	-8.8	-12.8	-10.9	-5.7	5.2	-1.0	-0.7	0.0	0.4	0.5	-0.1	0.0
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	-2.1	-0.3	-2.4	-3.2	2.3	-2.6	4.9	-2.1	-4.0	-5.0	-4.0	-3.0	-3.0	-3.8
Inflation rate (GDP deflator, in percent)	4.5	-1.1	10.0	14.4	14.2	7.4	5.6	3.8	5.7	4.7	3.9	3.6	4.0	4.4
Growth of real primary spending (deflated by GDP deflator, in percent)	7.8	11.4	2.2	-7.8	1.9	2.3	6.0	1.9	4.9	5.3	5.5	5.4	4.8	5.2
Primary deficit	1.4	1.9	3.3	3.3	4.7	1.6	2.1	4.1	4.1	3.2	3.0	3.3	3.2	3.4
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 10/**
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2007–12								37.8	37.1	36.7	36.0	35.3	34.7	**-2.3**
A2. No policy change (constant primary balance) in 2007–12								37.8	40.9	44.0	47.1	50.3	53.1	**-1.5**
B. Bound tests														
B1. Real interest rate is at baseline plus one standard deviations								37.8	41.9	45.1	48.1	51.6	54.8	**-0.2**
B2. Real GDP growth is at baseline minus one-half standard deviation								37.8	41.8	45.3	49.0	53.6	58.1	**-0.8**
B3. Primary balance is at baseline minus one-half standard deviation								37.8	42.0	45.2	48.2	51.6	54.5	**-1.5**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								37.8	42.2	45.7	49.0	52.8	56.2	**-0.5**
B5. One time 30 percent real depreciation in 2008 9/								37.8	49.3	51.4	53.2	55.4	57.2	**-1.6**
B6. 10 percent of GDP increase in other debt-creating flows in 2008								37.8	51.0	52.9	54.7	56.9	58.7	**-1.6**

1/ Indicates coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 9. Syrian Arab Republic: External Debt Sustainability Framework, 2002–12
(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2002	2003	2004	2005	2006			2007	2008	2009	2010	2011	2012		
								I. Baseline Projections							**Debt-stabilizing non-interest current account 6/**
External debt	75.9	77.3	73.2	23.3	19.4			**17.2**	**17.8**	**18.3**	**18.8**	**19.3**	**19.7**		**-4.2**
Change in external debt	-5.4	1.4	-4.1	-49.8	-3.9			-2.2	0.6	0.5	0.4	0.5	0.4	0.0	
Identified external debt-creating flows (4+8+9)	-14.0	-1.2	-5.1	-6.8	0.2			1.7	1.9	1.1	0.7	1.2	1.3	0.0	
Current account deficit, excluding interest payments	-8.6	-1.6	2.7	3.3	5.5			5.2	5.9	5.0	4.7	5.3	5.6	4.2	
Deficit in balance of goods and services	-7.1	-2.2	3.0	3.1	5.4			5.8	6.6	6.5	6.7	7.8	8.6		
Exports	37.4	38.3	39.0	41.8	37.7			38.0	36.2	36.3	35.9	34.9	34.1		
Imports	30.2	36.1	42.0	44.9	43.1			43.7	42.8	42.7	42.6	42.7	42.7		
Net non-debt creating capital inflows (negative)	-0.5	-0.7	-1.1	-1.7	-1.7			-3.1	-3.9	-4.0	-4.1	-4.2	-4.3	-4.3	
Net foreign direct investment, equity	0.5	0.7	1.1	1.7	1.7			3.1	3.9	4.0	4.1	4.2	4.3		
Net portfolio investment,equity	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		
Automatic debt dynamics 1/	-4.9	1.0	-6.6	-8.4	-3.6			-0.4	-0.1	0.1	0.1	0.1	0.0	0.0	
Contribution from nominal interest rate	1.4	0.8	0.6	0.8	0.6			0.6	0.7	0.8	0.9	0.9	0.9	1.0	
Contribution from real GDP growth	-4.4	-0.9	-1.9	-2.1	-0.8			-0.7	-0.6	-0.8	-0.8	-0.7	-0.7	-0.8	
Contribution from price and exchange rate changes 2/	-1.9	1.1	-5.3	-7.1	-3.4			-0.3	-0.2	0.1	0.0	-0.1	-0.2	-0.2	
Residual, incl. change in gross foreign assets (2-3)	8.6	2.6	1.0	-43.0	-4.1			-3.9	-1.3	-0.6	-0.3	-0.7	-0.9	0.0	
External debt-to-exports ratio (in percent)	203.2	201.8	187.8	55.9	51.5			45.3	49.1	50.5	52.3	55.3	57.8		
Gross external financing need (in billions of U.S .dollars) 3/	1.0	2.3	3.7	4.0	4.7			5.2	5.8	5.7	5.7	6.3	6.7		
In percent of GDP	4.3	10.2	14.8	14.1	13.5			14.0	14.8	14.1	13.6	14.2	14.5		
Key macroeconomic assumptions						10-Year Historical Average	10-Year Standard Deviation							For debt stabilization	Projected Average
Real GDP growth (in percent)	5.9	1.1	2.8	3.3	4.4	2.5	2.8	3.9	3.7	4.8	4.6	3.9	4.0	4.0	4.2
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	-2.1	-0.3	-2.4	-3.2	2.3	-2.6	4.9	-2.1	-4.0	-5.0	-4.0	-3.0	-3.0	-3.0	-3.8
GDP deflator in US dollars (change in percent)	2.3	-1.5	7.3	10.8	16.8	4.7	8.3	1.6	1.5	-0.6	-0.2	0.5	0.8	0.8	0.4
Nominal external interest rate (in percent)	1.9	1.0	0.8	1.2	3.4	1.7	0.7	3.4	4.4	4.7	4.9	5.0	5.1	5.1	4.8
Growth of exports (U.S. dollar terms, in percent)	20.4	2.1	12.3	22.6	10.1	8.8	11.7	6.3	0.4	4.4	3.2	1.5	2.6		2.4
Growth of imports (U.S. dollar terms, in percent)	18.2	19.0	28.4	22.2	17.1	10.3	13.9	7.2	3.0	4.1	3.9	4.8	4.9		4.1
Current account balance, excluding interest payments	8.6	1.6	-2.7	-3.3	-5.5	2.2	4.7	-5.2	-5.9	-5.0	-4.7	-5.3	-5.6		-5.3
Net non-debt creating capital inflows	0.5	0.7	1.1	1.7	1.7	1.0	0.5	3.1	3.9	4.0	4.1	4.2	4.3		4.1
								II. Stress Tests for External Debt Ratio							**Debt-stabilizing non-interest current account 6/**
A. Alternative scenarios															
A1. Key variables are at their historical averages in 2007–12								17.2	11.8	7.4	3.6	-0.4	-4.4		**-0.8**
B. Bound tests															
B1. Nominal interest rate is at baseline plus one-half standard deviation								17.2	17.9	18.4	18.9	19.6	20.0		**-4.2**
B2. Real GDP growth is at baseline minus one-half standard deviations								17.2	18.0	18.6	19.1	19.7	20.0		**-4.3**
B3. Non-interest current account is at baseline minus one-half standard deviations								17.2	20.2	23.1	25.9	28.9	31.7		**-4.2**
B4. Combination of B1-B3 using 1/4 standard deviation shocks								17.2	19.1	20.9	22.6	24.5	26.1		**-4.1**
B5. One time 30 percent real depreciation in 2008								17.2	23.7	22.0	20.3	18.4	16.3		**-6.3**

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

5/ The implied change in other key variables under this scenario is discussed in the text.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10: Syrian Arab Republic: Medium-Term Framework for the Strong Adjustment Scenario, 2005–12

		Prel.	Proj.					
	2005	2006	2007	2008	2009	2010	2011	2012
	(Change in percent, unless otherwise indicated)							
National income and prices								
Nominal GDP (LS billions)	1,493.6	1,780.9	1,920.7	2,143.9	2,382.4	2,624.0	2,863.8	3,117.3
Oil GDP	362.2	421.0	379.5	371.1	362.2	343.5	313.6	292.7
Nonoil GDP	1,131.4	1,359.9	1,541.3	1,772.8	2,020.1	2,280.5	2,550.2	2,824.6
Nominal GDP ($ billions)	28.6	34.9	36.9	39.1	41.2	43.6	46.1	49.2
Real GDP	3.3	4.4	3.9	5.0	6.1	5.9	5.2	5.4
Real nonoil GDP	6.0	6.5	5.8	6.5	6.5	6.5	6.5	6.5
GDP deflator	14.4	14.2	3.8	6.3	4.7	4.0	3.7	3.2
CPI period average	7.2	10.0	7.0	8.0	7.0	6.0	5.0	4.0
Oil sector								
Crude oil production ('000 barrels/day)	431	400	370	352	359	363	345	330
Net oil exports (crude and refined, '000 barrels/day)	130	70	56	44	40	33	0	-32
Oil export price ($ per barrel)	48.3	57.9	57.4	61.9	61.7	60.1	59.4	59.0
	(In percent of GDP, unless otherwise indicated)							
Government finances 1/								
Revenue	24.0	21.9	22.0	24.7	26.4	29.0	30.0	30.4
Oil-related revenue	7.1	4.5	3.8	3.1	3.4	3.3	2.3	1.4
Non-oil revenue	16.9	17.4	18.2	21.6	23.0	25.7	27.7	29.0
Of which: measures								
VAT	...	...	...	...	0.2	2.0	3.0	3.9
Phasing petroleum price subsidies	...	...	...	2.7	3.5	4.0	4.6	4.8
Expenditure	28.4	27.6	27.0	29.0	29.5	30.0	31.0	32.2
Current expenditure	18.1	18.7	18.4	19.9	20.4	20.9	21.5	21.7
Development expenditure	10.3	8.9	8.6	8.6	8.6	8.6	9.0	10.0
Overall balance	-4.4	-5.7	-5.0	-4.3	-3.1	-1.0	-1.0	-1.8
Non-oil budget balance	-11.6	-10.2	-8.9	-7.4	-6.5	-4.3	-3.2	-3.2
Gross debt	35.9	35.9	37.8	39.0	39.0	37.5	35.9	35.2
Domestic	12.5	16.5	20.6	21.7	21.8	20.9	19.9	19.6
External	23.3	19.4	17.2	17.3	17.2	16.6	16.0	15.5
	(Change in percent of initial stock of money)							
Money and quasi-money	12.0	14.6	13.9	15.3	14.3	11.0	10.8	12.3
Net foreign assets 2/	2.3	-1.7	3.4	8.8	6.9	5.4	4.3	4.2
Net domestic assets 2/	9.7	16.3	10.4	6.6	7.4	5.6	6.5	8.1
Credit to government	7.9	0.7	10.5	5.8	4.0	1.8	1.2	2.2
Credit to public enterprises	-0.7	7.7	0.0	-0.6	0.4	0.4	0.4	0.4
Credit to private sector	8.9	4.6	3.1	2.9	3.3	4.1	5.8	6.6
Credit to private sector (change in percent)	45.9	18.4	12.0	11.4	13.3	16.7	22.6	23.1
Credit to private sector (in percent of GDP)	14.4	14.3	14.9	14.8	15.1	16.0	18.0	20.4
	(In billions of U.S. dollars, unless otherwise indicated)							
Balance of payments								
Oil Balance	0.6	0.1	-0.1	-0.3	-0.2	-0.3	-1.0	-1.6
(in percent of GDP)	2.0	0.4	-0.1	-0.7	-0.5	-0.8	-2.1	-3.3
Non-oil exports of goods & services	7.7	8.4	10.1	10.8	11.4	12.1	13.0	14.2
(in percent of GDP)	26.8	24.0	27.5	27.5	27.7	27.7	28.1	28.9
Non-oil imports of goods & services	-10.4	-12.2	-13.3	-13.7	-14.5	-15.0	-15.3	-16.1
(in percent of GDP)	-36.2	-34.8	-36.1	-35.1	-35.1	-34.4	-33.3	-32.7
Non-oil goods and services balance	-2.7	-3.1	-3.2	-3.0	-3.0	-2.9	-2.4	-1.9
(in percent of GDP)	-9.5	-8.8	-8.6	-7.6	-7.4	-6.7	-5.2	-3.8
Current account balance	-1.2	-2.1	-2.0	-1.9	-1.9	-1.7	-1.7	-1.7
(in percent of GDP)	-4.1	-6.1	-5.4	-5.0	-4.5	-4.0	-3.7	-3.5
Foreign direct investment (in percent of GDP)	1.7	1.7	3.2	4.0	4.1	4.1	4.2	4.3
Overall balance	0.0	-0.8	-0.2	1.2	1.1	0.9	0.8	0.9
Official Net foreign assets	17.6	16.8	16.6	17.9	18.9	19.9	20.6	21.5
(in months of imports of GNFS)	16.4	13.4	12.2	13.0	12.9	13.0	13.0	12.8
Debt								
External debt (percent of GDP)	23.3	19.4	17.2	17.3	17.2	16.6	16.0	15.5
Debt service-to-exports ratio (payments basis)	4.7	5.4	7.3	7.4	7.6	6.9	6.7	6.1

Sources: Syrian authorities; and Fund staff estimates and projections.

1/ Including the Price Stabilization Fund and a broad coverage of public enterprises.
2/ Starting in 2008 net of valuation adjustments.

Table 11. Syrian Arab Republic: Financial Soundness Indicators, 2005–06 1/
(In percent unless otherwise indicated)

	Public Banks		Private Banks		All Banks	
	2005	2006	2005	2006	2005	2006
Asset quality						
Non-performing loans/loan portfolio	13.1	12.1	0.5	1.0	12.2	10.6
Loan loss provisions/non-performing loans	6.6	8.6	94.4	40.2	6.9	9.0
Liquidity 2/						
Liquid assets/total assets	38.4	22.3	64.0	62.9	40.1	27.5
Customer loans/total deposits	44.5	52.6	25.5	25.5	43.2	49.2
Syrian pound loans/total Syrian pound deposits	50.8	64.8	48.9	49.2	50.7	62.8
Profitability						
Return on Assets (RoA)	1.2	0.5	0.5	0.4	1.2	0.5
Return on Equity(RoE) 3/	25.7	3.6	4.6	6.0	22.9	3.8
Solvency						
Capital adequacy ratio (BIS)	na	na	na	na	na	na
Leverage ratio (capital/assets) 3/	4.7	14.6	10.0	7.1	5.1	13.7
Stability						
Growth in credit to private sector	38.7	10.9	281.7	106.9	45.9	18.4
Deposit growth	1.9	-0.8	232.7	116.4	8.8	9.9
Deposit dollarization ratio	9.0	11.8	52.9	54.0	13.1	19.4

Source: Central Bank of Syria; and Fund staff estimates.

1/ Data are preliminary and subject to change.
2/ Weighted averages by asset size.
3/ The decline in ROA and ROE ratios and the increase in leverage ratio in 2006 is due to the increase in CBoS's capital by SP 66 billion in 2006.

INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by the Middle East and Central Asia Department

July 13, 2007

Contents Page

Annex I. Syrian Arab Republic: Fund Relations
(As of May 31, 2007)

I. Membership Status: Joined April 10, 1947; Article XIV

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota[1]	293.60	100.00
Fund holdings of currency	293.60	100.00
Reserve position in Fund	0.01	0.00

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	36.56	100.00
Holdings	36.57	100.03

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to Fund: (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

VII. Exchange Rate Arrangement

The central bank of Syria issues on a daily basis quotations for the buying and selling exchange rates for the Syrian pound against major currencies. Up until end-December 2006, the budget exchange rate, which applied to all public sector transactions, used to be pegged to the U.S. dollar. During the transition since the abolition of the budget rate on January 1, 2007 and its unification with the private sector exchange rate, the central bank has been managing the value of the currency vis-à-vis the U.S. dollar within a tight trading range. The de facto exchange rate arrangement is still classified as a conventional peg.

[1] Under the Eleventh General Review.

VIII. Article IV Consultations

Syria is on an annual consultation cycle. The last Article IV consultation was held in April/May 2006 and was completed by the Board on July 31, 2006 (IMF Country Report No. 06/294).

IX. Article XIV and Article VIII Restrictions

Syria continues to maintain, under Article XIV, restrictions on payments and transfers for current international transactions, including administrative allocation of foreign exchange. Syria also maintains exchange measures that are subject to Fund approval under Article VIII: (i) prohibition against purchases by private parties of foreign exchange from the banking system for some current international transactions; (ii) a multiple currency practice resulting from divergences of more than 2 percent between the official exchange rate and officially recognized market exchange rates; (iii) a non-interest-bearing advance import deposit requirement of 75–100 percent for public sector imports; and (iv) an exchange restriction arising from the net debt under inoperative bilateral payments arrangements with the Islamic Republic of Iran, and Sri Lanka.

The Executive Board adopted decision No. 13766-(06/71) at the Board meeting on July 31, 2006:

1. The Fund takes this decision relating to the Syrian Arab Republic's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 2006 Article XIV consultation with the Syrian Arab Republic, in light of the 2006 Article IV consultation with the Syrian Arab Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The Syrian Arab Republic maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in IMF Country Report No. 06/294. In addition, as described in IMF Country Report No. 06/294, the Syrian Arab Republic maintains exchange measures subject to approval under Article VIII. The Fund encourages the Syrian Arab Republic to eliminate the restrictions maintained under Article XIV, Section 2 as soon as its balance of payments position permits, and to eliminate the measures that are subject to approval under Article VIII as soon as possible. (IMF Country Report No. 06/294).

X. Technical Assistance

Department	Topic	Date
METAC	Central Bank Accounting	Ongoing
MCM	Strategic Planning at the Central Bank of Syria and New Central Bank Law	November 2006
FAD	Public Financial Management	February 2006
METAC	Revenue Administration	Ongoing
METAC	Consumer Price Index	Ongoing
MFD	Long-Term Advisors on Central Bank Accounting, Reserves Management, and Monetary Policy Issues	Ongoing
MFD	Foreign Exchange Market Development, Unification and Exchange Regime	January 2006
LEG/MFD	AML/CFT outreach training	December 2005
MFD	Long-Term Advisor on Securities Market	September 2005
MFD	Centralization of Official Foreign Reserves and Associated Accounting, Reserves and Public Debt Management Issues	September 2005
METAC	National Accounts	Ongoing
	Bank Regulation and Supervision	Ongoing
MFD	Re-organization of the Central Bank of Syria	May 2005
FAD	Revenue Administration	March 2005
LEG/MFD	AML/CFT legal drafting	Feb/March 2005
STA	Multi-Sector Statistics (National Accounts, Fiscal, Monetary, and Balance of Payments)	June 2004
FAD	Value-Added Tax	July 2004
MAE	Two Long-Term Advisors on Bank Regulation and Supervision	2002–2004
MAE	Two-Day Workshop on On-Site Banking Supervision	July 2002
MAE	Workshop on Off-Site Banking Supervision	March 2002

Annex II. Syrian Arab Republic: Relations with the World Bank Group
(End-March 2006)

In June 2002, Syria settled its overdue service payments to IBRD and IDA, which had risen to the equivalent of $526 million as of mid-1997, and all loans and credits were restored to accrual status. Consequently, the country's eligibility for disbursements was reinstated as of July 1, 2002.

Subsequent to the agreement on arrears in July 1997, the World Bank began to provide non-lending services to Syria. Initial activities included support for the Ministry of Finance and the Central Bank of Syria in accounting and the establishment of an external debt management system covered by grants from the Institutional Development Fund; planning and implementation grants supporting Year 2000 remediation efforts; the Global Environment Fund biodiversity project; and reviews of the trade regime (including export promotion), health, roads, urban water and sanitation, and agricultural irrigation sectors.

In the last two years, the authorities have continued to request only non-lending support from the Bank. Analytical services have focused mainly on the trade and investment agenda. A trade policy report entitled "Harnessing Trade for Growth" was submitted to the Authorities in December 2004. A Trade Logistics study was completed in 2003, and discussed in a large workshop with the private sector in December 2003. An Investment Climate Assessment survey was carried out in 2003 and 2004, and its result have been finalized in a report dated June, 2005. The World Bank has also initiated a grant activity (from April 2005) in collaboration with the Fund and the UNDP to establish a National Statistical Capacity Strategy.

The Bank program over the next three years will be based mainly on knowledge transfer and analytical services focusing on two pillars: (i) economic reform and transition; and (ii) human development and social protection.

- On the first pillar, the program will build on the substantial analytical and survey work done in the last year that resulted in two trade reports and the forthcoming Investment Climate Assessment report that will be presented to the authorities. The Bank will provide both analytical advice and technical assistance to the authorities in their search for a solid and global strategy of economic growth and transition to a private sector-led economy. This would imply integrating within the existing trade and investment agenda issues linked to fiscal and monetary policy, financial sector reform, and public enterprise reform.

- On the second pillar, the Bank will be focusing on assisting the authorities in (i) developing a comprehensive education sector strategy as agreed with the Minister of Education; (ii) understanding the labor market and designing appropriate policies and programs, and (iii) assessing their social assistance programs and policies and providing recommendations on reforming the system.

IFC has been active in Syria since 1999 when the Board approved the corporation's first investment in the country—a $1 million equity stake in a manufacturer of drip irrigation systems. Since that time, IFC has made two other investments, including an equity position in the first private sector bank in Syria and a loan to a chemicals company. The total held portfolio is $20.2 million. IFC has also conducted technical assistance work, including studies of aspects of the financial sector.

Annex III. Syrian Arab Republic: Statistical Issues

1. Significant data weaknesses continue to hamper the staff's ability to conduct effective surveillance and monitor the economy's response to ongoing reforms. The weak statistical infrastructure has been unable to cope with the acceleration of structural reforms, and the inherent difficulties in recording the flows of people, goods, and money from and into Iraq have added to this challenge. The staff's assessment of economic developments and policies is constrained by these circumstances.

2. In the context of Article IV missions, the authorities have expressed an intention to address the need for statistical improvement. They have agreed that Syria's participation in the General Data Dissemination System (GDDS) would provide a framework for statistical development. To this end, compilers from the Ministry of Finance (MOF), Central Bank of Syria (CBS), and the Central Bureau of Statistics participated in a GDDS Workshop in Abu Dhabi during February 27–March 9, 2005 and prepared preliminary metadata for all macroeconomic sectors. On May 30, 2006, STA transmitted the draft metadata to the GDDS coordinator to be updated, clarified where needed, and for inclusion of missing information. As of end-June 2007, feedback from the authorities is pending.

A. Real Sector

3. A series of STA and Middle East Technical Assistance Center (METAC) national accounts and price statistics missions in 2005–06 found that the Central Bureau of Statistics had made steady progress implementing prior STA recommendations and updating the base year for the national accounts to 2000. However, the following weaknesses still exist:

- GDP estimates by the production approach suffer from under-coverage of activities, particularly in private services while free zone activities are not covered.
- Estimates of household final consumption expenditures are residually determined and include the change in inventories, as the latter is not estimated separately. The authorities have begun to make use of the 2004 Household Income and Expenditure Survey and to collect data on inventory changes in the public sector.
- Consumption of fixed capital is estimated as a constant ratio of output.
- Net income flows between residents and nonresidents derived from the balance of payments are unsatisfactory. As a result, the estimates of gross national disposable income, saving, gross capital formation, and net borrowing from abroad are unreliable.
- Consumer price index calculations are nonstandard. Prices are compared to the same month of the base year; and there are four weighing schemes, one for each quarter. Consequently, no month-on-month inflation can be derived, and the annual average inflation is not equal to the sum of the monthly indices. However, improvements are imminent following technical assistance provided by METAC.

- Wholesale price index is compiled and reported annually, but it is not representative of market determined prices, as most prices are for goods and services provided at subsidized prices by public sector enterprises.

4. The latest national accounts figures reported for publication in the *International Finance Statistics (IFS)* refer to 2003.

B. Government Finance

5. Government finance statistics (GFS) suffer from major deficiencies with respect to definitions, coverage, classification, methodology, accuracy, reliability, and timeliness that generate severe inconsistencies with monetary and balance of payments statistics. The multisector mission of June 2004 found that compilation is adversely affected by cumbersome institutional arrangements, inadequate resource availability and unresolved methodological problems. The methodology used for compilation does not follow either *GFSM 2001* or *GFSM 1986*. While budget data are available with very long lags (two years for final budget accounts), financing data are not available. There is no dissemination of GFS data, and even access to key data sources by GFS compilers within the MOF, such as the breakdown of debt service into interest and amortization, is problematic. This contributes to discrepancies in external financing as reported in the budget and the balance of payment.

6. The largest, most persistent and volatile discrepancies are between the financing requirements of the budget, as reported by the MOF, and government financing as reported by the CBS. The lack of a common and regularly updated coverage of the government sector between the MOF and the CBS, misclassification of public enterprises investment expenditure, as well as timing and valuation issues, are mainly responsible for those discrepancies.

7. Other discrepancies between fiscal and monetary accounts relate to the unorthodox treatment by the CBS of some transactions with government, such as the parallel rise of government deposits and claims on government in the CBS balance sheet, which is likely due to government withdrawals being counted as credit and never netted out against deposits, and profits transferred to government treated as permanent claim on the government.

8. To address the methodological issues, the June 2004 multisector mission developed a preliminary bridge table that maps the budgetary source data codes to the GFSM 2001 classification codes, and conducted a seminar to clarify various aspects of the GFSM 2001 methodology to the MOF officials. To help the Directorate of Planning and Statistics (DPS) implement a proper sectorization scheme, the mission provided an updated institutional table showing the current coverage of government and public enterprises—the investment expenditure of public enterprises is included in government's capital expenditure—for circulation to all relevant agencies. Moreover, the mission formulated a detailed work plan centered around the provision of adequate resources and training for the DPS to fulfill its tasks. The work plan calls for the DPS to access core source data necessary for compilation—initially on a cash basis—of annual GFS data according to the *GFSM 2001*, and for the resumption

of data reporting to STA for publication in *GFSY* and *IFS*, together with improved reporting, in terms of coverage and classification, to the IMF's Middle East and Central Asia Department (MCD). The mission also recommended improvement in the timeliness of annual data, including data on financing, and a start on the compilation of sub-annual data.

C. Monetary Accounts

9. Monetary statistics suffer from major deficiencies which hamper the staff's ability to conduct meaningful analysis of monetary developments. The multisector statistics mission in June 2004 found that while the format of monetary statistics is largely consistent with the structure of recommended *MFSM* sectoral surveys, the institutional coverage of monetary statistics is incomplete, and there are deficiencies in the source data arising from, inter alia, (i) the use of different exchange rates at the CBS and at the other banks for valuing their foreign positions; (ii) financial positions are not valued at market prices or market-price equivalents; (iii) a number of accounting procedures for the maintenance of public sector accounts cause distortions in the measurement of gross positions; (iv) recently established private banks as well as banks and bank branches operating in the Free Zones are excluded from the coverage of monetary survey; and (v) there are disparities between the institutional coverage of public sector in monetary statistics and the government finance statistics.

10. To address the source data deficiencies, the June 2004 multisector mission recommended: (a) the use of a market exchange rate for valuing all foreign currency denominated positions at all banks, including the central bank, or as an intermediate step, the use of a single rate closest to the market rate for valuing all foreign currency positions at the CBS and at the other banks, (b) valuation of financial positions based on market prices or market price equivalents; (c) inclusion of recently established private banks as well as banks and bank branches operating in the Free Zones in the coverage of the monetary survey; and (d) full adoption of the residency principle based on the center of economic interest. Further, the accounting procedures for the maintenance of public administrative sector's current accounts and the classification of the CBS' profit advances to the government should be revised to an outstanding stock basis (for example, by ensuring that the deposit accounts are debited for any checks presented instead of the check amount treated as an advance and credited to a claim on the check issuer). The institutional lists for public administrative and economic sectors should be updated for consistency with the recommendations for the government finance statistics made by the mission, and these lists should be used as the basis for collecting data and compiling monetary accounts.

11. Monthly monetary data for the *IFS* are reported irregularly and with a considerable lag. As of end-June 2007, the last data reported for publication were the October 2006 data for the central bank and the October 2005 data for deposit money banks.

D. Balance of Payments

12. Annual balance of payments statistics are compiled by the CBS on a provisional basis with about an eight-month lag. As of May 2007, the latest balance of payments statistics reported for publication in the *IFS* refer to 2005. Trade data are compiled monthly by the Customs Department and reported quarterly by the Central Bureau of Statistics in local currency units with a six-month lag. The BOP is presented in *BPM5* format, but its compilation method is not entirely consistent with the *BPM5* methodology. The June 2004 STA mission observed the following weaknesses:

- Private transfers do not fully reflect remittances by Syrians working abroad. The statistics in the BOP for official transfers differ significantly from figures provided from other sources, such as donors.
- Data on long-term official capital inflows and amortization are not consistent with the data provided by the MOF on the external financing of the budget deficit. Data on private capital movements are incomplete.
- Data on external debt continue to be incomplete, and external debt service obligations and arrears are generally not recorded in the BOP.
- Military imports are excluded from BOP and external debt data.
- There is a large discrepancy between reserve flows reported in the BOP and the reserve flows implied by the monetary survey. In particular, Net Foreign Assets (NFA) of the banking system is much higher in the monetary survey than in the international liquidity table derived from the balance of payments.

13. The mission recommended the adoption of a new foreign exchange form (developed by the mission) to improve source data and the establishment of an enterprise register to estimate foreign direct investment. It also recommended the dissemination of international reserves and external debt data—neither of which was disseminated for reasons of confidentiality.

14. In February 2006, an STA assessment mission visited Damascus to assess the status of the work program as a basis for developing a METAC technical assistance program on external sector statistics. The mission reported minimal progress in implementing the work program and in addressing weaknesses. The mission recommended the following five priority areas for technical assistance:

- compiling reliable import and export data based on information from the banking system and data sources other than the Customs Department/CBS;
- estimating FDI data based on information from the Ministry of Planning and/or a sample of FDI companies;
- implementing the new reporting form for commercial banks (to improve various components of the BOP, specifically services);

- deriving flow data from the balance sheets from commercial banks and the CBS (financial account transactions); and
- hands-on training for the new staff.

15. During June 26–29, 2006 a METAC mission visited the CBS to assess progress in developing the institutional infrastructure for compiling balance of payments statistics; provide technical advice on implementing the international transactions reporting system (ITRS) for commercial banks and foreign exchange bureaus; review the international reserves data; and identify specific areas for further technical assistance in revamping the data compilation system. At the end the mission, the CBS agreed to act on a number of critical issues. These included (1) establishing a balance of payments division/department with a start-up staffing of at least 6 persons and provide adequate computing resources; (2) providing to METAC by end-August 2006, ITRS-based data reported by commercial banks; (3) providing by end-July 2006 detailed breakdowns of the central bank balance sheet; and (4) providing by end-July 2006, detailed bridge tables (in English and electronic) that explains how the central bank balance sheet and the commercial banks' balance sheet are mapped to the monetary survey.

16. Another METAC mission visited Syria on January 18, 2007. This mission found little progress in the implementation of previous advice. In particular, the Balance of Payments Department is not yet created. The authorities indicated that management discussions on the proposed structure are completed but took the view that implementing the agreed changes to the RASD should coincide with the timing of the overall restructuring of the CBS to be completed during 2007. On ITRS, of the initial seven banks targeted (the Commercial Bank of Syria and six private banks), only five banks have responded, but the quality of their data is poor; problems include lack of disaggregation, misclassifications and lack of reconciliation with data provided in the old bank reporting form. Missing monthly reports, incomplete reporting (missing branches) and lengthy delays in reporting result in a situation in which the CBS does not have a consolidated ITRS report for any single month in 2006. In the event, the CBS also took the decision not to target the banks in the free zones during 2006, and have indicated that this would be implemented from the reporting year 2007. The authorities requested METAC's assistance in training banks' staff (including those from the Commercial Bank of Syria's extensive branches) in completing the ITRS form. Regarding international reserves, the data are derived from the monetary statistics, and based on the discussions, may contain foreign currency holdings/deposits of commercial banks that are not under the control of the central bank. The authorities agreed to provide METAC (within one week from the date of the meeting) revised data on reserve assets, while identifying the items that were removed. The authorities have followed up on their commitment and submitted to STA international reserves data, which are currently being reviewed.

Syrian Arab Republic: Table of Common Indicators Required for Surveillance
As of June 22, 2007

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	May. 2006	Jun. 2006	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb. 2006	Mar. 2006	M	…	M
Reserve/Base Money	Oct. 2006	Jan. 2007	M	...	M
Broad Money	Oct..2005	Apr. 2006	M	...	.M
Central Bank Balance Sheet	Oct. 2006	Jan. 2007	M	...	M
Consolidated Balance Sheet of the Banking System	Oct..2005	Apr. 2006	M	...	M
Interest Rates[2]	Apr. 2006	Jul. 2006	M	...	M
Consumer Price Index	Dec. 2004	Apr. 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2003	Apr. 2005	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2003	Apr. 2005	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2003	Apr. 2005	A	A	A
External Current Account Balance	Dec. 2005	Oct. 2006	A	A	A
Exports and Imports of Goods and Services	Dec. 2005	Oct. 2006	A	A	A
GDP/GNP	Dec. 2003	Apr. 2005	A	A	A
Gross External Debt	Dec. 2003	Apr. 2005	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

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FOR IMMEDIATE RELEASE
August 15, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2007 Article IV Consultation with the Syrian Arab Republic

On July 30, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Syrian Arab Republic.[1]

Background

Over the past three years, Syria has recovered from a half decade of weak growth, notwithstanding an unsettled regional environment and a sharp drop in oil production.
The economic recovery has gained momentum, benefiting from inflows from Iraqi refugees and abundant liquidity in the Gulf region. Private investment has strengthened owing to an improved business climate, and exports have made strong gains, particularly in some Arab markets, reflecting higher demand and improved access under the Great Arab Free Trade Area. Despite a sharp drop in oil proceeds (10 percentage points of GDP over the last three years) and the large demand shock associated with the Iraqi refugees, inflationary pressures have been contained, owing to the economy's supply responsiveness and a sustained, timely and sizeable fiscal adjustment. Public debt is still at a relatively moderate level, and the international reserves cover remains comfortable.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies.
On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The near-term outlook for growth and inflation is favorable. The reforms implemented in recent months, continued stimulus to aggregate demand from the Iraqi presence, and favorable growth prospects both globally and in the region are expected to support consumption and non-oil exports, and to encourage higher private investment. In 2007, these factors would help sustain growth at about the same pace as in 2006, although deterioration in weather conditions, which recently hit the cereal and cotton crops, may dampen growth somewhat. Fiscal policy aims to reduce the overall budget deficit to 5 percent of GDP in 2007 (from 5.7 percent in 2006), notwithstanding an expected further decline in oil revenues of about ¾ percentage points of GDP. This would require a reduction in the non-oil budget deficit of some 1½ percent of GDP, which the authorities plan to achieve through a further rationalization of capital spending. Credit policy is expected to support the recent trend decline in inflation. The authorities intend to continue using the exchange rate as a nominal anchor, while allowing some limited flexibility.

Significant progress has been made on the structural front over the last two years, but the reform agenda remains substantial. Substantial progress toward exchange rate unification and current account convertibility has been achieved; a dynamic private banking sector is now leading financial sector growth; the investment regime has been liberalized; taxes have been simplified and tax administration is being modernized, and the local industry has been exposed to greater competition through several rounds of tariff cuts and a relaxation of trade restrictions. Regulatory frameworks for banking, insurance and capital markets, and for housing and real estate have been developed.

Executive Board Assessment

Directors noted that macroeconomic adjustment and structural reforms have helped the Syrian economy engineer a strong rebound from the subpar growth of the previous half decade and maintain financial stability, despite the abrupt drop in oil proceeds, the deterioration in the regional environment, and the pressures stemming from the large inflow of refugees from Iraq. While the short-term outlook is encouraging, the challenges posed by the further depletion of oil reserves are daunting. Directors underscored that growth will need to be solidified, including by persevering with quality fiscal adjustment and the steadfast implementation of the reforms embedded in the ambitious tenth five-year development plan.

Directors commended the authorities for the sustained, timely and significant fiscal adjustment and welcomed the lowering of corporate income taxes. They agreed that introducing a VAT and phasing out petroleum price subsidies would provide the main pillars of the required fiscal adjustment. A broad-based value-added tax (VAT) would have a strong revenue raising potential with only a limited impact on production and investment. Directors observed that phasing out petroleum price subsidies could generate significant efficiency gains and redress part of the social inequity in the existing policy. They recommended that the authorities accelerate the pace of tax administration reforms supporting the introduction of the VAT.

Directors commended the authorities for the significant progress toward exchange rate unification and current account convertibility. They stressed the need to enact a new foreign exchange law that would abrogate the existing complex set of foreign exchange laws and regulations and enshrine full current account convertibility, and a unified exchange rate. This would send a strong signal about the irreversibility of these reforms and the commitment of the authorities to re-entry into the global economy. Directors felt that although the level of the real exchange rate appears broadly appropriate, the impact of its recent strengthening on external competitiveness should be monitored carefully, particularly in light of the depletion of oil reserves and the large uncertainties about the level of the current account deficit and the sources of its financing.

Directors welcomed the tightening of credit policy, which helped tame inflationary pressures, despite the large demand shock from the influx of Iraqi refugees. They considered that the adoption of a bank law that would grant the central bank operational independence in monetary and exchange rate management would establish credibility in operating the new exchange rate regime and strengthen the monetary policy framework. This would need to be supported by the introduction of market-based instruments of monetary control, the centralization of official foreign exchange reserves at the central bank, and the establishment of the long-delayed government securities market. The process of licensing the foreign exchange bureaus and launching an interbank foreign exchange market should be accelerated.

With respect to financial sector reform, Directors were pleased with the fast-paced expansion of private banks. However, they were concerned about the emerging vulnerabilities and the remaining impediments. They urged the authorities to give priority to strengthening bank supervision capacity and to speed the process of state bank restructuring to stem further accumulation of bad debt and allow greater competition. Directors also noted the liberalization of the investment regime and the adoption of a modernized basic finance law.

Directors welcomed the steady progress made in trade liberalization, including the recent publication of the tariff schedule and the unified negative list of imports. They encouraged the authorities to further streamline the list of prohibited imports, abolish the system of industrial quotas, reduce the number of tariff bands, and eliminate nontariff barriers. Continuing to work on improving the business climate is essential to enhance the incentives of the private sector to invest and to turn the promise from the surge in investment approvals into a reality.

Directors agreed that an overarching prerequisite for the success of reforms in all areas is to strengthen domestic capacity. They encouraged the authorities to introduce a special fast-track scheme to attract highly skilled managers and to provide intensive training to newly hired young graduates, while continuing to work toward a far-reaching civil service reform.

Directors urged the authorities to improve the quality and timeliness of economic statistics, especially in the external and real sector. They recommended that priority be given to improving the balance of payments statistics to provide a sounder basis for macroeconomic management.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2007 Article IV Consultation with the Syrian Arab Republic is also available.

Syrian Arab Republic: Selected Economic Indicators, 2003–07

	2003	2004	2005	Prel. 2006	Proj. 2007
	(Change in percent, unless otherwise indicated)				
National income and prices					
Real GDP	1.1	2.8	3.3	4.4	3.9
Real non-oil GDP	2.5	5.0	6.0	6.5	5.8
CPI period average	5.8	4.4	7.2	10.0	7.0
Oil export price ($ per barrel)	26.9	33.4	48.3	57.9	57.4
	(In percent of GDP, unless otherwise indicated)				
Public finances 1/					
Revenue	28.8	27.2	24.0	21.9	22.0
Oil-related revenue	14.7	11.2	7.1	4.5	3.8
Non-oil revenue	14.0	16.0	16.9	17.4	18.2
Expenditure	31.4	31.4	28.4	27.6	27.0
Current expenditure	17.7	19.0	18.1	18.7	18.4
Development expenditure	13.7	12.4	10.3	8.9	8.6
Overall balance	-2.6	-4.2	-4.4	-5.7	-5.0
Non-oil budget balance	-17.3	-15.4	-11.6	-10.2	-8.9
Gross debt 2/	84.7	82.6	35.9	35.9	37.8
	(Changes in percent of initial stock of money)				
Money and quasi-money	7.6	13.5	12.0	14.6	15.5
Net foreign assets 3/	4.2	7.1	2.3	-1.7	4.0
Net domestic assets 3/	3.5	6.4	9.7	16.3	11.5
Credit to private sector (change in percent)	30.3	35.0	45.9	18.4	19.2
Reserve money (change in percent)	10.2	25.2	7.7	9.7	13.3
	(In billions of U.S. dollars, unless otherwise indicated)				
Balance of payments					
Balance of goods and services	14.5	17.0	18.6	20.7	23.1
Oil balance	2.4	1.3	0.6	0.1	-0.1
Non-oil exports of goods & services	4.6	6.4	7.7	8.4	10.1
Non-oil imports of goods & services	-7.5	-9.4	-10.4	-12.2	-13.1
Current account balance	0.2	-0.8	-1.2	-2.1	-2.2
Foreign direct investment (in percent of GDP)	0.7	1.1	1.7	1.7	3.1
Overall balance	0.6	0.2	0.0	-0.8	-0.6
Official net foreign assets	17.4	17.6	17.6	16.8	16.2
(in months of imports of G&S)	25.4	20.0	16.4	13.4	12.1
Debt					
External debt (percent of GDP) 2/	77.3	73.2	23.3	19.4	17.2
Debt service-to-exports ratio (payments basis)	10.8	5.9	4.7	5.4	7.3
Exchange rates					
Weighted average nominal exchange rate LS/$ 4/	49.3	50.5	52.2	51.0	...
Official transaction rate 4/	46.5	48.7	50.0	50.0	...
Parallel market rate (Beirut/Amman)	52.8	52.3	54.3	52.0	...
Real effective exchange rate (1990=100)	58.9	58.8	59.8	66.0	...
(change in percent)	3.4	-0.2	1.7	10.3	...

Sources: Syrian authorities; and IMF staff estimates and projections.
1/ Including the Price Stabilization Fund and a broad coverage of public enterprises.
2/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.
3/ In 2007 net of valuation adjustments.
4/ Trade-weighted average of official and parallel market rates.